

**CITY COUNCIL AGENDA
CONSENT ITEM**

Date: October 8, 2013
TO: City Council
FROM: June Overholt, Administrative Services Director
SUBJECT: Recommendation to Adopt a Resolution of Approving a Statement of Investment Policy

RECOMMENDATION: "The City Council adopt Resolution No. 2013-95, a Resolution of the City Council of the City of Banning Adopting a Statement of Investment Policy."

JUSTIFICATION: City policy requires an annual review of the investment policy.

BACKGROUND/ANALYSIS: The current policy focuses on safety, liquidity and availability, rather than on yield. Under the current policy, a minimum of 40% of the City's investments may be placed in an investment with the State of California's Local Agency Investment Fund (LAIF). The other investments cannot exceed a 36 month maturity. Per the State Treasurer's Office, pursuant to the California Government Code monies invested with LAIF cannot be borrowed or withheld by the State of California. These monies are protected by statute. The remaining 60% of the City's available operating money is invested in authorized securities (other than LAIF). The LAIF rate has dropped from .528% to .271% from July 1, 2010 to the present. Our current average rate on investments outside of LAIF is .406%. Our current average rate on investments overall (excluding bond funds) is .314%. In 2011-12, the LAIF rate ranged from .448% to .358% and the City earned approximately \$198,500 of interest on all of its investments. In 2012-13 the LAIF rate dropped further to .244% and the total interest earned on all investments was approximately \$178,000.

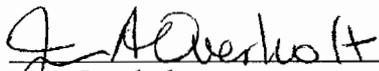
Staff is recommending minor changes to the policy. In Section 8 AUTHORIZED AND SUITABLE INVESTMENTS. Mortgage Backed Securities were previously listed as an authorized investment tool. Although the City has not invested in Mortgage Backed Securities, to avoid confusion on whether the City could, this option is being removed.

Council members have expressed concern with the earnings on investments. A Request for Proposal was issued seeking an investment management firm. Once proposals are received, analysis will be done to determine whether investment earnings could be improved sufficiently enough to cover the administrative costs of a management firm. Should council approve investment advisory management services, the firm would provide input on updating the investment policy, provide quarterly reports to the City and provide daily management of investments.

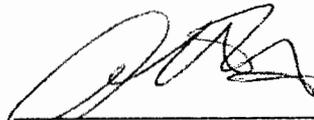
FISCAL DATA: No immediate fiscal impact is anticipated. The monthly Report of Investments tracks any changes in investment income.

RECOMMENDED BY:

APPROVED BY:



June Overholt
Administrative Services Director/
Deputy City Manager



Andy Takata
City Manager

RESOLUTION NO. 2013-95

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF BANNING ADOPTING
A STATEMENT OF INVESTMENT POLICY**

WHEREAS, Under the laws of the State of California, it is the responsibility of the City Council to secure and protect the public funds of the City of Banning (hereinafter "City"), and to establish proper safeguards, controls, and procedures to maintain these funds in a lawful, rational and auspicious manner; and

WHEREAS, said maintenance shall include the prudent and secure investment of those funds that are not immediately needed to meet cash disbursements, in a manner anticipated to provide additional benefit to the electorate of the City of Banning;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF BANNING as follows:

SECTION 1. The following shall constitute the Statement of the Investment Policy of the City of Banning:

1. SCOPE

This Statement of Investment Policy pertains to those funds under the control of the City Council, designated for the ongoing operations of the City and the City's Redevelopment Agency; and concerns the deposit, maintenance, and safekeeping of all such funds, and the investments made with these funds. This Policy does not apply to pension moneys, deferred compensation funds, trustee, and certain other non-operating funds.

2. PURPOSE OF POLICY STATEMENT

The purpose of this Statement of Investment Policy is to provide the public and those involved in servicing the investment requirements of the City, and any other interested party, a clearer understanding of the Government Codes, regulations and internal guidelines that will be observed in maintaining and investing those funds not immediately needed to meet liabilities.

3. INVESTMENT OBJECTIVES

The underlying objective of the City Council is to protect the safety of the principal of the portfolio through the judicious purchase of those legal investments permitted to local agencies, as defined in the State of California Government Codes, consistent with current conditions and the other dominant objectives pursuant to managing a local agency portfolio, namely:

- A. **Safety:** The City Council takes as its primary responsibility to maintain the safe return of all principal placed in investments by avoiding decisions that might result in

losses through fraud, default, or adverse market conditions. Importance is also accorded to the protection of accrued interest earned on any investment instrument.

- B. **Liquidity:** The City Council accepts as an imperative that a majority (a minimum of 60%) of all investments are in items that are immediately negotiable, as the portfolio is a cash management fund. It shall be assumed that all investments shall remain sufficiently liquid in order to meet unexpected cash calls.
- C. **Availability:** Due to the nature of a public funds portfolio, the City Council finds that it is mandatory that moneys be available to meet the monetary requirements inherent to operating a public entity. Thus funds should be invested in such a manner that money will always be available without risk of trading loss to meet normal cash requirements. A vast majority of the moneys invested by the City Council should never require the realization of immoderate losses should an unforeseen cash demand require the sale of investments prior to maturity. A sufficient portion of all funds shall be invested in securities providing a high degree of availability, that is, in securities easily sold or converted to cash in a timely manner, with little or no loss of interest earnings.
- D. **Yield:** While it is considered desirable to obtain a respectable yield, yield shall not be the driving force in determining which investments are to be selected for purchase. Yield is to be given lesser weight in the investment decision than safety, liquidity, or availability.

The City Council shall undertake to place investments with the objective of obtaining a reasonable rate of return under prevailing market conditions. In pursuit of this goal, maximization of yield shall be of lesser concern than either safety of principal, liquidity of the investment, or availability of the invested funds. The City Council undertakes to be prudently cognizant of those factors within the marketplace that may be indicative of either favorable or hazardous conditions relative to the City's investments. The portfolio is to be managed under the strategy of minimal turnover in investments however, with sufficient activity to minimize losses due to adverse changes in market conditions.

4. PRUDENCE

The City Council recognizes that it is subject to the "Prudent Investor Standard" whenever making a decision regarding the investment of the City's funds. This rule states:

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, general economic conditions and the anticipated needs of the agency, that a prudent person acting in 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 (Cal. Gov. Code §53600.3).

The City Council, and those acting under the auspices of the City Council, is deemed to have a fiduciary trustee relationship with the public for the public funds, and all investment decisions will be made in a manner sustaining this responsibility.

5. DELEGATION OF AUTHORITY

While the City Council has final responsibility for all investment decisions, other City personnel are required to aid in the day to day administration of those decisions. Those staff members currently authorized to act on behalf of the City Council are listed below. This list is subject to change. Parties involved in investment transactions with the City Council are deemed to be on notice of the contents of the most current copy of this Policy, and all pertinent authorizing documents, at the time of accepting written or verbal instructions from any staff member. The Councilpersons and deputized personnel listed below are designated to perform such approved investment related tasks as the City Council shall from time to time assign, to arrange any required notifications, and to execute the documents necessary to put into effect the decisions of and for the City Council:

Title

Mayor

Administrative Services Director

City Manager

Other persons, both inside and outside City employment, may act in the role of assistant or advisor to those listed above, to aid in the timely and proper settlement of investment transactions. Such persons may not authorize, approve, or initiate any trading activities. **Only the persons listed above may initiate trading activity and only in a manner consistent with the instructions of the City Council.**

City Council directives to the City Manager and Administrative Services Director are as follows:

- Make investments in accordance with this policy.
- Make phone calls to, or otherwise communicate with, LAIF or brokerage firm for investment purposes and to withdrawal and deposit funds as required to meet the City's cash flow requirements between meetings of the City Council.
- Make transaction withdrawals for cash flow requirements up to a maximum of limit of \$3,000,000 per single transaction without prior approval of the City Council.

6. SECURITIES CUSTODY

As required by the Government Code, the City Council shall establish a third party custody and safekeeping account to which all negotiable instruments shall be delivered upon purchase on a payment versus delivery basis. No negotiable, deliverable, securities or investments will be left in the custody of any brokerage firm or issuing party, including any collateral from Repurchase Agreements.

7. AUTHORIZED INVESTMENTS AND LIMITATIONS

The Government Code of the State of California, primarily within sections 53600 et. seq., sets out the legal authority for inclusion of certain types of investment vehicles in a California local agency's investment portfolio. Consistent with those sections, under no circumstances will the City Council purchase an investment that is not specifically authorized for a local agency under these, or other code sections that may apply, or might later be enacted, pertaining to local agency investments. It shall be a requirement of all investment professionals performing any transaction on behalf of the City that they possess a complete understanding of the acceptability of the subject investment under those code sections.

A "Table of Investments Permitted Local Agencies by the California Government Codes" is attached hereto, marked Attachment "A" and by this reference made a part hereof. Attachment "A" briefly describes the principal types of securities legal within the Government Code sections noted above, and outlines the various limitations included in these sections. From these permitted investments, the Council shall determine those investment types that best meet the needs and abilities of the City.

8. AUTHORIZED AND SUITABLE INVESTMENTS

It is hereby determined by the City Council that, due to the exceptional safety, liquidity and availability provided by the State of California's Local Agency Investment Fund (LAIF), a minimum of 40% of the City's operating moneys shall be placed in the LAIF, with the exception of certain bond proceeds and required deposits that pre-existing contractual obligations restrict to other investment types. Such exceptions shall comply with all appropriate Government Codes, ordinances and other restrictions inherent to the conditions requiring such exceptions.

It is hereby further determined by the City Council that not more than 60% of the City's operating moneys may be placed in the following types of securities:

- Securities issued or guaranteed by the U.S. Treasury or agencies of the United States Government
- Bank Certificates of Deposit
- Shares of savings certificates of savings and loan associations

9. AUTHORIZED TERM OF INVESTMENTS

It is hereby determined that the maximum maturity period for any portion of invested operating moneys shall not exceed thirty-six (36) months. This shall not apply to certain bond proceeds or other non-operating moneys of the City.

10. AUTHORIZED DEALER LIST – CONFLICT OF INTEREST PROHIBITION

It is prohibited for a transaction to be entered into with any securities broker, dealer or bank investment department or subsidiary prior to that entity being designated an Authorized Dealer, and placed on the Authorized Dealer List. Authorized Dealers shall be selected on an as

needed basis to meet specific needs of the City Council. The Administrative Services Director is authorized to manage the Authorized Dealer List.

No member of the City Council, nor any other official or employee of the City, may accept any gift, honoraria, gratuity or service of value in violation of the regulations set forth by the Fair Political Practices Commission, the Government Code, additional limitations set forth by City ordinance, or internal requirements of the Treasurer and Administrative Services Director. The City Council is prohibited from conducting any business with any broker, dealer, or securities firm that has made a political contribution to the City Treasurer or any member of the City Council, or any candidate for these offices, within the 48 month period immediately following the date of the political contribution, in an amount exceeding the limitation contained in Rule G-37 of the Municipal Securities Rulemaking Board. A copy of Rule G-37 is attached hereto and incorporated herein as Attachment "B."

11. REPORTING

The Administrative Services Director shall maintain investment records legally required or otherwise requested by the City Council and prepare a report for the Council on a monthly basis stating the holdings, status, and earnings of the portfolio. The Statement of Investment Policy will be provided at the start of each fiscal year annually for review and approval of the City Council. Should conditions arise, or legislation become effective that behooves consequential changes within the Policy during the year, the revised policy will again be addressed by the City Council.

SECTION 2. This Statement of Investment Policy shall be reviewed annually and approved by the City Council in an open public meeting. Upon request, it will be provided to banks and brokers and to other effected persons or entities; and to any member of the electorate wishing to review this document. The City reserves the right to provide these documents on a cost recovery basis.

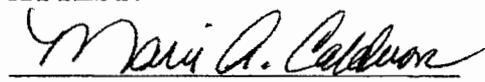
SECTION 3. The Statement of Investment Policy was originally adopted under Resolution 2012-63, which expired by its terms on August 28, 2013.

SECTION 4. The Statement of Investment Policy is hereby adopted.

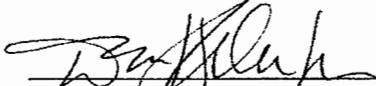
PASSED, APPROVED AND ADOPTED this 8th day of October, 2013.


Deborah Franklin, Mayor
City of Banning

ATTEST:


Marie A. Calderon, City Clerk
City of Banning

**APPROVED AS TO FORM
AND LEGAL CONTENT:**



David J. Aleshire, City Attorney
Aleshire & Wynder, LLP

CERTIFICATION:

I, Marie A. Calderon, City Clerk of the City of Banning, California, do hereby certify that the foregoing Resolution, No. 2013-95 was duly adopted by the City Council of the City of Banning, California, at a regular meeting thereof held on the 8th day of October, 2013 by the following vote, to wit:

AYES: Councilmembers Botts, Miller, Peterson, Welch, Mayor Franklin

NOES: None

ABSENT: None

ABSTAIN: None



Marie A. Calderon, City Clerk
City of Banning, California

ATTACHMENT "A"

RESO. NO. 2013-95

ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT
CODE (AS OF JANUARY 1, 2013)^A APPLICABLE TO ALL LOCAL AGENCIES^B

See "Table of Notes for Figure 1" on the next page for footnotes related to this figure.

INVESTMENT TYPE	MAXIMUM MATURITY ^C	MAXIMUM SPECIFIED % OF PORTFOLIO ^D	MINIMUM QUALITY REQUIREMENTS
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations-- CA And Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S Agency Obligations	5 years	None	None
Bankers' Acceptances	180 days	40% ^E	None
Commercial Paper-- Select Agencies ^F	270 days	25% of the agency's money ^G	"A-1" if the issuer has issued long- term debt it must be rated "A" without regard to modifiers ^H
Commercial Paper-- Other Agencies ^I	270 days	40% of the agency's money ^J	"A-1" if the issuer has issued long- term debt it must be rated "A" without regard to modifiers ^H
Negotiable Certificates of Deposit	5 years	30% ^K	None
CD Placement Service	5 years	30% ^K	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements and Securities Lending Agreements	92 days ^L	20% of the base value of the portfolio	None ^M
Medium-Term Notes ^N	5 years	30%	"A" Rating
Mutual Funds And Money Market Mutual Funds	N/A	20% ^O	Multiple ^{P,Q}
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	"AA" Rating ^R
Bank/Time Deposits	5 years	None	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	Multiple ^S
Local Agency Investment Fund (LAIF)	N/A	None	None
Voluntary Investment Program Fund ^T	N/A	None	None

TABLE OF NOTES FOR FIGURE 1

- ^A Sources: Sections 16340, 16429.1, 53601, 53601.8, 53635, 53635.2, and 53638.
- ^B Municipal Utilities Districts have the authority under the Public Utilities Code Section 12871 to invest in certain securities not addressed here.
- ^C Section 53601 provides that the maximum term of any investment authorized under this section, unless otherwise stated, is five years. However, the legislative body may grant express authority to make investments either specifically or as a part of an investment program approved by the legislative body that exceeds this five year maturity limit. Such approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.
- ^D Percentages apply to all portfolio investments regardless of source of funds. For instance, cash from a reverse repurchase agreement would be subject to the restrictions.
- ^E No more than 30 percent of the agency's money may be in bankers' acceptances of any one commercial bank.
- ^F "Select Agencies" are defined as a "city, a district, or other local agency that does not pool money in deposits or investment with other local agencies, other than local agencies that have the same governing body."
- ^G No more than 10 percent of the agency's money may be invested in any one issuer's commercial paper.
- ^H Issuing corporation must be organized and operating within the U.S. and have assets in excess of \$500 million.
- ^I "Other Agencies" are counties, a city and county, or other local agency that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body." Local agencies that pool exclusively with other local agencies that have the same governing body must adhere to the limits set for "Select Agencies," above.
- ^J No more than 10 percent of the agency's money may be invested in the commercial paper of any one corporate issuer.
- ^K No more than 30 percent of the agency's total funds may be invested in CDs authorized under Sections 53601.8, 53635.8, and 53601(l).
- ^L Reverse repurchase agreements or securities lending agreements may exceed the 92-day term if the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity dates of the same security.
- ^M Reverse repurchase agreements must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has a significant relationship with the local agency. The local agency must have held the securities used for the agreements for at least 30 days.
- ^N "Medium-term notes" are defined in Section 53601 as "all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the U.S. or by depository institutions licensed by the U.S. or any state and operating within the U.S."
- ^O No more than 10 percent invested in any one mutual fund.
- ^P A mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years experience investing in instruments authorized by Sections 53601 and 53635.
- ^Q A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years experience investing in money market instruments with assets under management in excess of \$500 million.
- ^R Issuer must have an "A" rating or better for the issuer's debt as provided by a nationally recognized rating agency.
- ^S A joint powers authority pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years experience investing in instruments authorized by Section 53601, subdivisions (a) to (c).
- ^T Local entities can deposit between \$200 million and \$10 billion into the Voluntary Investment Program Fund, upon approval by their governing bodies. Deposits in the fund will be invested in the Pooled Money Investment Account.