



CITY OF RANCHO PALOS VERDES

**TO:** HONORABLE MAYOR & MEMBERS OF THE CITY COUNCIL  
**FROM:** DENNIS McLEAN, CITY TREASURER   
**DATE:** JULY 15, 2014  
**SUBJECT:** CITY INVESTMENT POLICY – FY14-15  
**REVIEWED BY:** CAROLYNN PETRU, ACTING CITY MANAGER 

Staff Coordinator: Allan Kaufman, Senior Administrative Analyst, Finance

**RECOMMENDATION:**

Adopt and file the FY14-15 Investment Policy for the City of Rancho Palos Verdes (City).

**BACKGROUND:**

Investment Policy

State law requires that public agencies adopt an investment policy annually. No significant changes to California law have occurred that would require modification to the City's investment policy.

As criteria for selection of investments, the policy maintains the use of the following factors (listed in order of priority): safety, liquidity, and yield. Each year, as a part of the City's annual independent audit, there is a review of the City's Investment Policy regarding compliance with Policy guidelines. This procedural review will be performed in conjunction with the internal control testing applied to City policies. Any discrepancies will be reported directly to the City Council in the auditor's management letter issued upon the completion of their examination.

Investment Details

Temporarily idle or surplus funds of the City shall be invested in accordance with principles of sound treasury management and in accordance with provisions of Government Code Section 53600 et seq., and the City's Investment Policy.

**CITY INVESTMENT POLICY – FY14-15**

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A summary of the City's (inclusive of Redevelopment Agency and Improvement Authority) invested funds as of May 31, 2014 is detailed below:

<b>Security Type</b>	<b>Financial Institution</b>	<b>Amount Invested</b>	<b>Current Yield</b>
Demand Deposit	Bank of America	\$6,970,365	0.00%
Demand Deposit	Bank of the West	\$2,000,000	0.00%
Pooled Investment	Local Agency Investment Fund (LAIF)	\$44,798,333	0.23%
Certificate of Deposit	Certificate of Deposit Account Registry Service (CDARS) – Malaga Bank Gateway	\$1,200,000	0.27%
	<b>Total</b>	<b>\$54,968,698</b>	

Attachments:

Exhibit A – Draft FY14-15 Investment Policy

## EXHIBIT A

### **CITY OF RANCHO PALOS VERDES, RANCHO PALOS VERDES REDEVELOPMENT AGENCY AND RANCHO PALOS VERDES IMPROVEMENT AUTHORITY FY14-15 INVESTMENT POLICY**

#### **OBJECTIVES**

The City of Rancho Palos Verdes, Rancho Palos Verdes Redevelopment Agency and Rancho Palos Verdes Improvement Authority (hereafter referred to as "City") strive to maintain the level of investment of all idle funds as near 100% as possible through the optimum operation of its cash management system. The City has determined that its investment criteria, listed in order of priority, are safety, liquidity and yield.

#### **DELEGATION OF AUTHORITY**

The City has designated the Director of Finance and Information Technology as Treasurer of the City, the Successor Agency to the former Redevelopment Agency and Improvement Authority (hereafter referred to as City Treasurer). The City has delegated the authority to invest to the City Treasurer, subject to the limitation set forth in the Investment Policy. The City Treasurer shall be trustee and fiduciary on behalf of the City. If the City Treasurer is unavailable, the City has delegated authority to the City Manager, also designated as the Executive Director of the Successor Agency to the former Redevelopment Agency and Chief Administrative Officer of the Improvement Authority, to conduct transactions in connection with the investment of the City's funds.

#### **INVESTMENT INSTRUMENTS**

The City can invest in the following investment instruments as approved by the California Government Code:

1. Demand deposits and money market savings accounts totaling a book balance up to five million dollars (\$5,000,000) with the Bank of America, Bank of the West or any other financial institution approved by the City Council; provided, however, that not more than 15% of the City's funds are on deposit at said bank. The City recently deposited \$2,000,000 with the Bank of the West during its transition from the Bank of America. The City anticipates the Bank of America account will be closed in the next several months. Demand deposits and money market savings accounts may exceed five million dollars (\$5,000,000) or 15% of the City's funds for no more than thirty (30) days if the accounts are to hold monies being transitioned between investment instruments listed in the Investment Policy.
2. The Local Agency Investment Fund (LAIF) administered by the Treasurer of the State of California.
3. Certificates of Deposit, which are insured by the Federal Deposit Insurance Corporation, including certificates of deposit placed through the Certificate of Deposit Account Registration System ("CDARs") as authorized by Government Code Section 53601.8 through 53635.8 (enacted by AB 2011 in

September 2006).

4. Securities backed by the full faith and credit of the United States Government and which mature in three years or less.
5. Money Market Savings Accounts and demand deposits with institutions other than those specified in paragraph 1 above, provided that no deposit made pursuant to this paragraph in any one institution shall exceed the amount insured by the Federal Deposit Insurance Corporation.
6. Shares of "money market funds", which are sold without any sales commission or sales charge of any kind (true no load funds), which limit investment to securities issued by (or guaranteed as to both principal and interest by) the United States, which are issued in the City's name and are rated in the highest ranking or numerical rating by at least one of the nationally recognized statistical rating organizations (not to exceed 15% of the total portfolio).
7. Repurchase agreements with Bank of America, or any other financial institution approved by the City Council, which meet the following standards:
  - A. The securities subject to the repurchase agreement shall be issued by the United States Government or be backed by its full faith and credit.
  - B. The term of the repurchase agreement shall be 7 days or less.
  - C. The aggregate total of the funds deployed in the repurchase agreements shall not exceed 15% of the City's portfolio.
  - D. The securities, which are the subject of the repurchase agreement, shall be held in the trust department of the bank entering into the repurchase agreement pursuant to a written agreement providing for the segregation from assets of the bank.

**The listed investments are the only authorized investments for the City.**

#### **POLICY CRITERIA FOR SELECTING INVESTMENTS (IN ORDER OF PRIORITY)**

##### **SAFETY:**

Safety, and the minimizing of risk associated with investing, refers to attempts to reduce the potential for loss of principal, interest, or a combination of the two. The first level of risk control is reduction of default risk by investing in instruments that appear to be the most credit worthy. The second level of risk control is reduction of market risk by investing in instruments that have relatively short maturities, thereby eliminating risk of loss from a forced sale. The City only invests in those instruments that are considered very safe.

##### **LIQUIDITY:**

Liquidity refers to the ability to easily sell at any time with minimal risk of losing some

portion of principal or interest. Liquidity is an important quality for an investment to have, for at any time the City may have unexpected or unusual circumstances that result in larger disbursements than expected, and some investments may need to be sold to meet the contingency. Most investments of the City are highly liquid, with the exception of insured Time Certificates of Deposit issued by banks and savings and loan associations whose maturities are selected in anticipation of disbursement needs, thereby obviating the need for forced liquidation or lost interest penalties.

#### YIELD:

Yield is the potential dollar earnings an investment can provide, and also is sometimes described as the rate of return. The City attempts to obtain the highest yield possible when selecting an investment, provided that the criteria stated herein for safety and liquidity are met.

### **POLICY CONSTRAINTS AND GUIDELINES**

The City of Rancho Palos Verdes operates its investment program according to the prudent investor standard with many additional, self-imposed constraints. The Treasurer shall act with the care, skill, prudence and diligence to safeguard principal and maintain liquidity. The Treasurer shall: (1) not speculate; (2) not buy corporate debt securities; (3) not deal in futures or options; (4) not purchase on margin or through reverse repurchase agreements; (5) not buy long term securities; and (6) not acquire any investment expressly prohibited by State statute.

### **REPORTS PROVIDED BY THE TREASURER**

The Treasurer shall annually render a Statement of Investment Policy to the City Council for their approval, and this policy shall be in compliance with all applicable State statutes.

The Treasurer shall render a monthly report of cash balances to the City Manager and City Council showing the type of investment, date of purchase, custodian (if applicable), institution, date of maturity, amount of deposit or purchase price, current market value for all securities, and rate of interest. The report shall also include a description of any of the City's funds, investments, or programs that are under the management of contracted parties.

The monthly Report of Cash Balances shall state its relationship to the Investment Policy by indicating each and every instance that there is a divergence from, or violation of, policy or stating that the monthly report is in compliance with the Investment Policy.

### **INVESTMENT AUDITS AND INVESTMENT POLICY EVALUATION**

As a part of the City's annual independent audit, there shall be a review of the City's Investment Policy regarding compliance with the Policy guidelines. These review procedures will be performed in conjunction with the internal control testing applied to City policies. Any discrepancies will be reported directly to the City Council in the auditor's management letter issued upon the completion of their examination.

## **INVESTMENT GUIDELINES**

### Cash Availability Guidelines:

1. A cash flow analysis shall be developed as necessary which will serve as a basis for determining the cash available for investment and maturity dates needed to cover future disbursements.
2. Revenue receipts are consolidated into one bank account and invested on a pooled concept basis. Interest earnings are allocated according to fund cash and investment balances.
3. Active bank balances are kept as low as possible without jeopardizing good banking relationships by maintaining investment of available cash as near to 100% as possible.
4. Sufficient funds are maintained in very liquid investments to meet most unexpected contingencies.

### Investing Guidelines:

1. Only investments authorized by the Investment Policy are utilized.
2. A copy of the Investment Policy should be given to each financial institution with which the City does business, and the City will request an acknowledgement not less than annually that such financial institution has received and reviewed the Policy.
3. Before an unfamiliar security is purchased, the issuer and the instrument are researched and investigated and all contractual agreements and administrative procedures are completed before any transactions are consummated.
4. The City does not permit the purchase of securities on margin or via reverse repurchase agreements (using the security to be purchased as collateral).
5. Every investment transaction is documented and the procedure for monitoring is clearly defined.
6. Investment strategies are reviewed by the City Treasurer for possible need to change at least annually. They are reviewed more frequently as changes in economic conditions dictate.

### Guidelines for certain Types of Investments:

#### California State Local Agency Investment Fund

A resolution is on file with the State Treasurer that permits maintaining an account in LAIF.

#### Custody

Custody of investments in securities backed by the full faith and credit of the United States Government shall be placed, pursuant to a written custody agreement, with Bank of America or any other financial institution approved by the City Council.

## **INTERNAL CONTROL OBJECTIVES FOR INVESTMENTS**

Internal control for investments is the procedure established by management of the City to assist in ensuring as far as practicable:

1. An orderly and efficient conduct of investing, including adherence to investment policies.
2. The safeguarding of assets.
3. The accuracy and completeness of the accounting records for investments.
4. The timely preparation of reliable financial information.
5. The prevention of errors.
6. The detection of fraud.

Elements of Internal Control of Investments:

Adherence to the use of sufficient elements of a system of internal control is the method by which the City can satisfy the objective of internal control. A list of sample elements follows:

1. Responsibility

Specific responsibility for the performance of duties should be assigned and lines of authority and reporting clearly identified and understood.

2. Segregation

Segregation of functions reduces the risk that a person is in a position to conceal errors. If two different people process the components of a transaction, collusion is necessary to conceal errors or fraud. In particular, the functions that should be considered when evaluating segregation of functions are authorization, execution, recording, and performing reconciliations.

3. Authorization

Only the appropriate responsible individual shall authorize all transactions. The responsibilities and limits of authorization should be clearly delineated. Delegation of authority to authorize transactions should be handled very carefully.

4. Transfers of Investment Funds

The transferring of investment funds will be carried out exclusively by use of the

Federal Reserve Bank's electronic wire transfer system. Each Banker or Dealer with which the City does business shall receive in writing from the City Treasurer a listing that limits transfers of funds to pre-authorized 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.

Transfers from one account of the City to another shall require the request of only one authorized staff member. Transfers from the City's account to third parties shall require the request of two authorized members.

5. Recording

The recording system should provide that the recording procedures, both manual and computerized, be carried out independently of the individual doing the investment execution to help assure that recorded transactions are complete, valid, authorized, and properly recorded.

Signed: \_\_\_\_\_  
Treasurer