

City of Garden Grove

INTER-DEPARTMENT MEMORANDUM

To: Matthew Fertal
From: Kingsley Okereke
Dept.: City Manager
Dept.: Finance
Subject: 2011 INVESTMENT POLICY;
Date: April 12, 2011
APPOINTMENT OF A CITY TREASURER
AND A DEPUTY CITY TREASURER; AND
DELEGATION OF INVESTMENT
AUTHORITY

OBJECTIVE

To comply with California Government Code Section 53646, which requires the Treasurer or Chief Fiscal Officer to annually submit a written Investment Policy (attached) to a public meeting of the local agency's legislative body; to appoint a City Treasurer and Deputy City Treasurer; and to delegate to the City Treasurer and Deputy City Treasurer authority to invest City funds.

BACKGROUND

The current City of Garden Grove Investment Policy as established in the early 1980's has continued to remain in compliance with State guidelines including the following stipulations:

1. The Chief Fiscal Officer may submit a quarterly report to the legislative body containing detailed information on all securities, investments, and moneys of the local agency.
2. Prohibition of governments investing in inverse floaters.
3. Prohibition of governments investing in any security that could result in zero interest accrual if held to maturity.

With the passage of Chapter 687, Statutes of 2000 (AB 943 Dutra) effective January 1, 2001, cities and counties are required to forward copies of their second and fourth quarter calendar year investment portfolio reports and copies of their investment policies to the California Debt and Investment Advisory Commission (CDIAC).

Also, the State authorizes the City Council each year to appoint a City Treasurer, and appoint the Finance Director, or his designee, as Deputy City Treasurer, as the persons responsible for the investments.

ANALYSIS

In compliance with the California law, monthly the Finance Director, acting as Deputy City Treasurer as outlined in Resolution No. 6177-81, submits to the City Council through the Managers Memo a copy of the investment portfolio. Also, the City's Investment Policy is presented to the City Council for review and approval at a public meeting annually. The Investment Policy outlines the City's investment guidelines and investing strategy. The policy requires the City to hold the securities or have safekeeping by a recognized financial institution. Currently, the Bank of New York, U.S. Bank and Union Bank, N.A. (which is a custodial service completely separate from Union Bank operations) provides custodial/safekeeping services to the City.

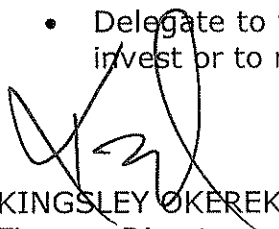
The City Investment Policy applies to secure the investment principal, allows for ease of liquidation, and provides a reasonable return on the investments. In addition, the Investment Policy allows the City of Garden Grove to maintain sufficient cash so all payments due in at least the next six months may be made in a timely manner.

The requirements and strategies outlined in the City's Investment Policy have allowed the City of Garden Grove to have no losses in principal while maintaining a very reasonable return on the portfolio. Last fiscal year the City's Investment Portfolio return was approximately 3.97%. All of the investments held in the portfolio at this time are either Federal Securities or invested in LAIF.

RECOMMENDATION

It is recommended that the City Council take the following actions:

- Approve the attached 2011 Investment Policy;
- Re-appoint John D.R. Clark as City Treasurer, and Kingsley Okereke as the Deputy City Treasurer; and
- Delegate to the City Treasurer and Deputy City Treasurer the responsibility to invest or to reinvest City funds.


KINGSLEY OKEREKE
Finance Director


By: Monica Neely
Revenue Manager

Recommended for Approval


Matthew Feral
City Manager

Attachment: City of Garden Grove Investment Policy

**CITY OF GARDEN GROVE
INVESTMENT POLICY**

2011

CITY COUNCIL

WILLIAM J. DALTON, MAYOR

STEVE JONES, MAYOR PRO TEM

BRUCE BROADWATER , COUNCIL MEMBER

ANDREW DO, COUNCIL MEMBER

DINA NGUYEN, COUNCIL MEMBER

**CITY MANAGER
MATTHEW FERTAL**

**FINANCE DIRECTOR
KINGSLEY OKEREKE**

**CITY OF GARDEN GROVE
11222 ACACIA PARKWAY, GARDEN GROVE, CA 92840**

CITY OF GARDEN GROVE INVESTMENT POLICY

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CITY OF GARDEN GROVE

INVESTMENT POLICY

MISSION STATEMENT

It is the policy of the City of Garden Grove to invest public funds in a manner that will provide maximum security, adequate liquidity and sufficient yield, while meeting the daily cash flow demands of the City of Garden Grove and conforming to all statutes and regulations governing the investment of public funds.

1. PURPOSE

This statement is intended to provide direction for the investment of the City of Garden Grove's temporary idle cash under the prudent investor standard. California Government Code Section 53600.3 defines the prudent investor as an individual who is authorized to make investment decisions as trustees, and therefore they are considered fiduciaries subject to the prevailing standard. Furthermore, the trustee is to act to safeguard the principal and maintain the liquidity needs of the agency.

The City's ultimate investment goal is to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all state and local statutes governing the investment of public funds.

2. SCOPE

This investment policy applies to all financial assets of the City of Garden Grove. These funds are accounted for in the City's audited Comprehensive Annual Financial Report and include all funds under the direction of the City.

3. PRUDENCE

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.

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviation from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4. OBJECTIVES

Section 53600.5 of the California Government Code defines the investment objectives of the investment of public funds and that the primary objective of a trustee is the safety of the principal of funds under its control. The secondary objective is to meet the liquidity needs of the depositor. The third objective is to achieve a return on the funds under its control.

A. 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 found in State law that restricts the particular type of investments permissible for municipalities. The second level of risk control is reduction of default risk by investing in instruments that appear upon examination to be the most credit worthy. The third level of risk control is reductions of market risk by investing in instruments that have maturities coinciding with dates of disbursements, thereby eliminating risk of loss from a forced sale. The City of Garden Grove only invests in those instruments that are considered very safe.

B. Liquidity

Liquidity refers to the ability to easily sell at any time with a 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. When this occurs the existence of highly liquid investments allows the City to meet the cash requirements without unfavorable forced liquidation penalties. Generally investments and their maturities are selected in anticipation of disbursement needs.

C. Yield

Yield is the potential dollar earnings an investment can provide, and also is sometimes described as the rate of return.

To meet the objectives, the City of Garden Grove attempts to obtain the highest yield on its investments consistent with the preservation of principal and liquidity. The yield benchmark for the City is the 6 month Treasury Bill as listed in the Money Rates section of the Wall Street Journal.

5. DELEGATION OF AUTHORITY

The City invests in the spectrum of instruments allowable under the Government Code Section 53600 et seq. of the State of California. The City Council has delegated, by resolution, the authority to invest with the City Finance Director and the appropriate assistant/s, subject to the limitations set forth in the Investment Policy and Investment Guidelines. (The City holds its public investor harmless for responsible investment transactions undertaken in accordance with the Investment Policy.)

6. ETHICS AND CONFLICT OF INTEREST

Officers and employees 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 Finance Director of the City any material financial interest in financial institutions that conduct business with the jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City, particularly with regard to the time of purchases and sales.

7. INVESTMENT GUIDELINES AND INVESTMENT STRATEGY

The City of Garden Grove uses a set of written Investment Guidelines (Attachment 1) that define the procedures for investing within the directives of the Investment Policy. In accordance with the Investment Guidelines, Investment Strategy (Attachment 2) is used to maximize yield depending on market conditions.

8. INVESTMENT INSTRUMENTS

The City invests in the following investment instruments as approved by the California Government Code subject to the limitations stated in the City's Investment Guidelines and Investment Strategy:

1. Securities of the U. S. Government or its Agencies
An obligation of the U. S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market
2. Federal Home Loan Bank (FHLB)
Members of the Home Loan Bank system issue consolidated bonds and discount notes as joint and severable obligations of the Home Loan Bank System. Although the banks operate under federal charter with

government supervision, there is no explicit federal guarantee of Federal Home Loan Bank debt. The reserves against the debt, which must be maintained, are considerable and this investment is considered very safe.

3. Federal National Mortgage Association (FNMA)

FNMA purchases conventional mortgages which are generated from the sale of corporate obligations to private investors. Its strong secondary market is financed in part through issuance of short-term notes that resemble commercial paper. The notes range up to 360 days.

3. Federal Farm Credit Bank (FFCB)

Farm Credit Bonds are high credit quality bonds. The Farm Credit System's status as a Government-sponsored enterprise, results from its public mission and ties to the federal government; the traditionally strong governmental support of the agricultural sector; and the System's strong financial performance in recent years, including favorable earnings and strong capital ratios. Farm Credit Debt Securities are the joint and several obligations of the Farm Credit System Banks and are not obligations of and are not guaranteed by the United States or any Federal agency instrumentality, other than the Banks.

4. Local Agency Investment Fund (LAIF)

An investment by local governments in which their money is pooled as a method for managing local funds.

5. Certificates of Deposit (CD)

A time deposit with a specific maturity evidenced by a certificate.

6. Bankers Acceptances

A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

7. Negotiated Certificates of Deposit

Unsecured obligations of a financial institution, bank or savings and loan, bought at par value with the promise to pay face value plus accrued interest at maturity. They are high-grade negotiable instruments, paying a higher interest rate than regular certificates of deposit.

8. Commercial Paper
An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 180 days.
9. Repurchase Agreements (Overnight)
An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price or at a specified later date.
10. Passbook Savings Account
11. Other investments that are, or may become, legal investments through the State of California Government Code.

9. DELIVERY

All security transactions entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Security will be held by a third party custodian designated by the Finance Director and evidenced by safekeeping receipts and monthly reports.

10. POLICY CONSTRAINTS

The City operates its investment program with many State and self-imposed constraints. It does not speculate; it does not buy stocks or corporate bonds; it does not deal in futures or options; it does not purchase on margin through Reverse Repurchase Agreements. The weighted average life of the portfolio is maintained within limits dictated by the cash flow needs of the City, the economy, and the Investment Guidelines. The City diversifies its investments to reduce potential default on market risks. The portfolio is carefully monitored to assure the prudent management of the portfolio.

11. INVESTMENT CONTROLS

The City has developed a System of Internal Investment Controls and a Segregation of Responsibilities of Investment Functions in order to assure an adequate system of internal control over the investment function.

The Finance Director 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.

12. INVESTMENT REPORTS

The Finance Director renders a monthly Investment Report to the City Manager and City Council, through the Manager's Memo, showing the type of investment, institution, date of maturity, amount of deposit, current market value for all securities under the City control, rate of interest, amount of interest received during the month and Par Value. A graph was added which indicates the percent of the portfolio that is invested in each type of investment instrument.

Twice a year as required by the passage of Chapter 687, Statutes of 2000 (AB 943, Durat) the City forwards a copy of their second and fourth quarter calendar year investment portfolio reports and copies of their investment policies to the California Debt and Investment Advisory Commission (CDIAC).

INVESTMENT GUIDELINES

INVESTMENT GUIDELINES STATE THE PARAMETERS OF HOW INVESTING IS TO BE ACCOMPLISHED.

1. CASH AVAILABILITY GUIDELINES

A. Cash flow analysis is developed which serves as a basis for determining the cash available for investment and maturity dates needed to cover future disbursements.

B. A close rapport is maintained with all other departments having a significant impact on cash flow to ensure receipt of timely and accurate data.

C. Revenue receipts are consolidated into one bank account and invested on a pooled concept basis. This provides maximum interest with minimal accounting steps. Interest earnings are allocated according to fund cash and investment balances.

D. Active bank balances are kept as low as possible without jeopardizing good banking relationships by maintaining investment of available cash as near to 100 percent as possible.

E. Bank balances are obtained daily to assure fast, accurate, and detailed information.

F. Sufficient funds are maintained in very liquid investments to meet most unexpected contingencies.

2. INVESTING GUIDELINES

A. Based on the economy a close working relationship is maintained with a list of well-established brokers, and bankers whose expertise is of assistance in making investing decisions.

B. Economic data, forecasts, and conditions are continuously obtained from financial experts in the field and evaluated as to impact on investing decisions.

C. Business journals are routinely reviewed and education programs attended to enhance knowledge and professional skills required managing an investment portfolio.

D. Only investments authorized by the Investment Policy are transacted.

INVESTMENT POLICY

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E. Investments are diversified by (1) type, (2) institution, (3) length of maturity, and (4) broker/dealer/bank used as is consistent with safety, liquidity, yield, and administrative cost.

F. Purchases of investments are made with the intent of holding the investments to maturity.

G. The City does not permit the purchase of securities on margin (the borrowing of funds via Reverse Repurchase Agreements using the security to be purchased as collateral).

H. Competitive bids are obtained and documented on all investments when practical.

I. Every investment transaction is documented and the procedure for monitoring is clearly defined.

J. Security purchases are maintained within statutory limits imposed by the California Government Code.

Current limits are:

Bankers Acceptances-30% and not over 180 days in maturity(53601-f)

Commercial Paper - 15% (53601-g)

Negotiated Certificates of Deposit - 30% (53601-h)

K. The weighted average life of the portfolio is maintained within limits dictated by the cash flow needs of the City and the economy.

L. Investment strategies are reviewed for possible need to change at least quarterly. They are reviewed more frequently as changes in economic conditions dictate.

3. GUIDELINES FOR TYPES OF INVESTMENTS

A. CALIFORNIA STATE-LOCAL AGENCY INVESTMENT FUND

A resolution of the City is on file with the State Treasurer, which permits maintaining an account in the Local Agency Investment Fund. The maximum balance that can be held in the fund is \$50 million. LAIF has a policy limiting the number of total deposit and withdrawals each month (currently it is a total of 15 transactions). Since periodically LAIF changes the maximum balance and the number of transactions allowed each month, the City will make the necessary adjustments to conform to any new requirements. Interest is paid quarterly on an average of what the fund earned for the quarter.

B. REPURCHASE AGREEMENTS (REPOS)

Repos are used only as a short-term investment not exceeding 30 days.

C. BANKERS ACCEPTANCES

Bankers Acceptances are mainly used for investments with a maturity of one to six months. The City will only invest in the 100 largest banks in the world (in terms of assets). Investment in any one institution will not exceed 10 percent of the City's portfolio. Investment in Bankers Acceptances will not exceed 30 percent of the City's portfolio as per State law. Maturities will be for 180 days or less.

D. TIME CERTIFICATES OF DEPOSITS (TCDs)

Only Time Certificates of Deposits that are insured for \$100,000 by FDIC, FLSIC, or fully collateralized as required by state law if over \$100,000 are purchased. Not more than five percent of the City's portfolio is invested in any one institution. Time Certificates of Deposit are safe kept in the City's vault in a fire file or in an acceptable safekeeping account with a perfected interest in the City's name. The institution must be located in California.

E. COMMERCIAL PAPER

Commercial paper is a short-term unsecured promissory note issued by a corporation to raise working capital. Local agencies are permitted by state law to invest in commercial paper of "prime" quality of highest rank. The City of Garden Grove invests in high quality commercial paper for periods of one to ten days to maximize temporary idle funds.

F. TREASURY NOTES AND FEDERAL AGENCY SECURITIES

Investments in Treasury Notes and Federal Agency Securities are limited to those with maturity of five years or less.

INVESTMENT STRATEGY

1. When making an investment decision, the purchase of an investment is made with the intent of holding that investment to maturity.
2. Fully utilize the cash flow projection to balance the liquidity needs at all times.
3. Maintain close working relationships with bankers and brokers, and contact several with each investment transaction.
4. Obtain, at least weekly, economic forecasts from bankers, brokers or other financial experts in the field.
5. Keep the active bank balance at the lowest possible level without jeopardizing good bank relationships.
6. Maintain sufficient funds in overnight investments to meet current cash flow.
7. Review investment plan and strategy as the need arises.
8. Review and update investment strategy quarterly.