

RESOLUTION NO. 2018-119
RESOLUTION NO. 2018-10 (SA/MRA)

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MARINA
AND THE SUCCESSOR AGENCY BOARD OF THE MARINA REDEVELOPMENT
AGENCY APPROVING THE CITY OF MARINA INVESTMENT POLICY

WHEREAS, pursuant to the provisions of Section 53646 of the California Government Code a copy of the Investment Policy is required to be provided to the City Council and Agency Board on an annual basis; and

WHEREAS, the purpose of the Investment Policy and Management Plan is to establish strategies, practices, and procedures to be used in administering the financial investments of the City of Marina and the Successor Agency to the Marina Redevelopment Agency; and

WHEREAS, staff has recommended certain changes to the City of Marina's investment policy, namely:

- 1) Increases dollar limits on time deposits to the current level of Federal Depository Insurance Corporation (FDIC) levels of \$250,000.
- 2) Permit the use of broker dealers beyond Primary Federal Reserve Dealers who are licensed by the SEC and have been in business for at least 5 years.
- 3) Allow the City to work with broker/dealers located within the United States, not just California
- 4) Revise the City portfolio investment horizon to:
 - a. Have at least \$5 million or 25% of the portfolio in investments maturing within 6 months or less; and,
 - b. No investment longer than 5 years unless authorized by Council.

WHEREAS, all cash balances, with the exception of cash in certain restricted and special funds, will be consolidated to maximize investment earnings while maintaining a high degree of safety.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Marina and the Board of the Marina Redevelopment Agency that the attached Investment Policy and Management Plan shall be approved effective immediately.

PASSED AND ADOPTED by the City Council of the City of Marina and the Successor Agency of Marina Redevelopment Agency at a regular meeting duly held on the 2nd day of October 2018, by the following vote:

AYES, COUNCIL MEMBERS: Amadeo, Morton, O'Connell, Brown, Delgado

NOES, COUNCIL MEMBERS: None

ABSENT, COUNCIL MEMBERS: None

ABSTAIN, COUNCIL MEMBERS: None

ATTEST:

Bruce C. Delgado, Mayor

Anita Sharp, Deputy City Clerk

INVESTMENT POLICY AND MANAGEMENT PLAN

**City of Marina
and
Successor Agency to the former Marina Redevelopment Agency**

Revised and Re-Approved October 2018
Last Revised, August 2007

**City of Marina
and
Successor Agency to the former Marina Redevelopment Agency**

INVESTMENT POLICY AND MANAGEMENT PLAN

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INTRODUCTION

PURPOSE

The purpose of the Investment Policy and Management Plan is to establish overall guidelines, strategies, practices, and procedures to be used in administering investments activities of the City of Marina and Successor Agency to the former Marina Redevelopment Agency. Related activities which comprise sound cash management including accurate cash flow projections, control of disbursements, expedient collection of revenues, cost effective banking relations. All cash balances, with the exception of bond process restricted by the provisions of relevant bond documents and cash in certain restricted/special funds, will be consolidated to maximize investment earnings. Investment income will be allocated funds based on their respective participation and in accordance with generally accepted accounting principles.

PRIMARY INVESTMENT OBJECTIVE

The City's and Agency's primary investment objective is to achieve a reasonable rate of return on public funds while minimizing the potential for capital losses arising from market changes or issuer default. Although the generation of revenues through investment earnings on investments is an appropriate goal, the primary consideration in the investment of funds is capital preservation in the overall portfolio. As such, the yield objective is to achieve a reasonable rate of return on investments rather than the maximum generation of income which could expose the unacceptable levels of risk.

In determining investment activities, the following factors shall be considered in priority order: Safety, Liquidity and Yield.

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. The City shall seek to preserve principal by mitigating the two types of risk, credit risk and market risk summarized as follows:

1. ***Credit risk.*** This is the risk of loss due to the failure of the security issuer or backer. Credit risk may be mitigated by:
 - Limiting investments to the safest types of securities.
 - Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which a City or Agency will do business.
 - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
2. ***Interest rate risk.*** This is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated by:

INTRODUCTION (continued)

- Structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations to avoid the need to divest of securities prior to maturity.
- Investing operating funds primarily in shorter-term securities or investment pools.

Liquidity

The investment portfolio shall remain sufficiently liquid to meet all reasonably anticipated operating requirements. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs and anticipated demands (static liquidity). Since all possible cash demands cannot be anticipated, the portfolio should consist of securities with active secondary or resale markets or an investment pool which offers same-day liquidity (dynamic liquidity).

Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities in anticipation of earning a reasonable return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

- A declining credit security could be sold early to minimize loss of principal.
- A security swap would improve the quality, yield, or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.
- Capital gain realized would improve the overall position of the portfolio in achieving goals.

SCOPE OF INVESTMENT POLICY AND MANAGEMENT PLAN

This policy covers all short-term operating funds and investment transactions involving the financial assets and related activity of the City and Successor Agency to the former Redevelopment Agency. These funds are accounted for in accordance with accepted accounting principles (GAAP) and include the following types:

- Governmental:
 - General Fund
 - Special Revenue Funds
 - Capital Projects Funds
- Debt Service Funds
- Proprietary:
 - Enterprise Funds
 - Internal Service Funds
- Fiduciary Funds:
 - Trust Funds
 - Agency Funds

INTRODUCTION (continued)

USE OF STATE GUIDELINES

Government Code Sections 16481.2, 53601, 53635, and 53646 of the State of California regulate the investment practices. It is the policy of the City and/or Agency to use the State's provisions for local government investments in the developing and implementing investment policies and practices. Major guidelines and practices, which are to be used in achieving the primary investment objective, include the following:

- Investment Authority and Responsibilities
- Capital Preservation and Risk
- Eligible Financial Institutions
- Investment Vehicles
- Investment Maturity
- Cash Management
- Evaluation Of Investment Performance
- Investment Reporting

These guidelines apply to all cash-related assets included within the scope of the audited financial statements and held either directly by the City and/or Agency or held and invested by trustees or fiscal agents. The only exception is funds invested in the City's deferred compensation plan, which is controlled by federal law, specific provisions of the City's adopted plan, and individual employee decisions.

PREPARATION AND ADMINISTRATION OF THE PLAN

The Finance Director and/or Treasurer are responsible for developing and monitoring the Investment Policy and Management Plan. As required under Government Code Sections 16481.2 and 53646, the Council and Agency Board will review the document annually. In the interim, the Treasurer is responsible for keeping the Investment Policy and Management Plan up-to-date to reflect changes in legislation, organizational structure, Council approved policies and administrative procedures.

INVESTMENT AUTHORITY AND RESPONSIBILITIES

AUTHORIZED INVESTMENT OFFICERS

Authority and responsibility to manage the investment portfolio is granted to the Finance Director and/or Treasurer, who shall carry out established written procedures and internal controls for the operation of the investment program consistent with this plan. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking services contracts.

INVESTMENT AUTHORITY AND RESPONSIBILITIES (continued)

No person may engage in an investment transaction except as provided under the terms of this plan and the procedures established by the Finance Director and/or Treasurer. Although the Finance Director/Treasurer may delegate these duties to another official in the Department of Finance, every investment transaction must be reviewed and approved by the Finance Director and/or Treasurer. Additionally, the Finance Director and/or Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

INTERNAL CONTROLS

The Finance Director/Treasurer is responsible for providing reasonable assurance of compliance with the investment plan as well as for establishing systems of internal control designed to prevent losses due to fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by City officers and employees. The concept of reasonable assurance recognizes that 1) cost of a control should not exceed the benefits likely to be derived; and 2) valuation of costs and benefits requires estimates and judgments by management.

All participants in the investment process shall act responsibly 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.

Additionally, the Finance Department may from time-to-time be required to be responsible for the physical security of investments and shall use custodial safekeeping for negotiable and bearer instruments whenever possible.

INVESTMENT MANAGEMENT RESOURCES

The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. Accordingly, the Finance Director and/or Treasurer shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- ☐ **Separation of transaction authority from accounting and record keeping.** Separation of duties from the person who authorizes or performs the transaction from the people whom record or otherwise account for the transaction.
- ☐ **Custodial safekeeping.** Securities purchased from any bank or dealer including appropriate collateral (as defined by State Law) shall be placed with an independent third party for custodial safekeeping.
- ☐ **Avoidance of physical delivery securities.** Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.

INVESTMENT AUTHORITY AND RESPONSIBILITIES (continued)

- ☐ **Delivery vs. payment.** All trades where applicable will be executed by delivery vs. payment (DVP). This ensures that securities are deposited in the eligible financial institution prior to the release of funds. A third party custodian will hold securities.
- ☐ **Clear delegation of authority to subordinate staff members.** Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
- ☐ **Written confirmation of telephone transactions for investments and wire transfers.** Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and the safekeeping institution has a list of authorized signatures. All requests will require two (2) signatures from the authorized list.
- ☐ **Development of a wire transfer agreement with the lead bank or third party custodian.** This agreement should outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.

EVALUATION OF STANDARD OF CARE (Prudence)

Investment officials as trustees have a fiduciary responsibility to act as a "prudent investor" under Government Code Section 53600.3. This standard shall be applied in the context of managing the overall portfolio of pooled idle cash. Investment officers acting in accordance with written procedures and this Investment Policy and Management Plan, and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this plan.

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. This affords a broad spectrum of investment opportunities as long as the investment is prudent under current law.

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of their entity.

CAPITAL PRESERVATION AND RISK

OVERVIEW

Some level of risk is inherent in any investment transaction. Losses may be incurred due to issuer default, market price changes, and technical cash flow complications such as investments in non-marketable certificates of deposit or unanticipated cash flow requirement. Diversification of the portfolio by institution, investment vehicle, and maturity term is the primary tool available in minimizing investment risk and capital losses by safeguarding the overall portfolio from any individual loss.

PORTFOLIO DIVERSIFICATION PRACTICES

The investment portfolio shall be diversified to prevent incurring unreasonable and avoidable risks regarding specific security types, individual financial institutions or maturity segments. The following sections summarize the major portfolio diversification practices and guidelines in determining:

- ☐ Eligible financial institutions
- ☐ Investment vehicles
- ☐ Investment maturity

Portfolio limitations included in these guidelines are to be based on the portfolio composition and Investment Policy and Management Plan policies in effect at the time of placement; the actual composition of the investments may vary over time from plan limitations due to overall portfolio changes from when the individual placement was made as well as changes in the Investment Policy and Management Plan.

ELIGIBLE FINANCIAL INSTITUTIONS

PORTFOLIO DIVERSIFICATION AND CREDIT-WORTHINESS STANDARDS

The following general criteria relating to portfolio diversification and credit-worthiness will be used in selecting depositories and broker/dealers (financial institutions) in the placement of investments:

- ☐ The financial capacity and credit-worthiness of the financial institution shall be considered prior to the placement of investments.
- ☐ Financial statements shall be maintained for each institution through which cash is invested.
- ☐ No more than 25% of the portfolio (exclusive of government agency issues) shall be placed with any financial institution.
- ☐ No more than 25% of the portfolio shall be invested in collateralized certificates of deposit issued by savings and loan institutions.
- ☐ Certificates of deposit (negotiable and collateralized) placed shall not constitute more than 15% of the total assets of the institution; and negotiable certificates of deposit will only be placed with institutions with total assets in excess of \$200 million and that maintain a ratio of equity to total assets of at least 5%.

CERTIFICATION AND REPORTING REQUIREMENTS

A list of qualified securities broker/dealers and financial institutions with which there is an investment relationship. A copy of the Investment Policy and Management Plan will be provided to those qualified in doing business with the City or Agency and will require written acknowledgment that they have reviewed the Investment Policy and Management Plan and that it will:

- ☐ Exercise due diligence in monitoring the activities of its officers and employees engaged in transactions.
- ☐ Ensure that all of its officers and employees offering investments are trained in the precautions appropriate to public sector investments.
- ☐ Submit audited financial statements prepared by an independent certified public accountant on an annual basis within 180 days after the end of the institution's fiscal year.

INDIVIDUAL PLACEMENT OF INVESTMENTS

Individual placement of investments with eligible financial institutions shall be based on the following practices and procedures:

- ☐ Investments shall be placed with qualified institutions who have submitted to the City their financials, have been established for at least 5 years and are registered with the Securities and Exchange commission as broker or dealers except when placing certificates of deposits with financial institutions at amounts less than the FDIC insurance level. The City will strive to have at least one broker/dealer who is also a primary dealer with the Federal Reserve.
- ☐ Except for repurchase agreements and placements with the State's local agency investment pool (LAIF), investments shall be awarded based on competitive bids.
- ☐ Within the context of the policies regarding competitive bidding and portfolio limitations, investments shall be distributed as evenly as possible between financial institutions.
- ☐ Negotiable investments shall not be purchased or sold from the institution which provides custodial safekeeping for investments.

INDIVIDUAL PLACEMENT OF DEPOSITS

Individual placement of negotiable, collateralized, and other time certificates of deposit with eligible financial institutions shall be based on the following practices and procedures:

- ☐ Deposits shall only be placed with financial institutions maintaining offices within the City of Marina.
- ☐ Unless collateralized by eligible securities as provided in Sections 53651 and 53652 of the Government Code, the maximum amount of Certificates of Deposit to be placed with any single institution is \$250,000.

ELIGIBLE FINANCIAL INSTITUTIONS (continued)

- ☐ Reasonable efforts will be made to place deposits of less than \$250,000 with each eligible institution. Any deposits in excess of this amount shall be awarded based on competitive bids.
- ☐ Within the context of policies regarding competitive bidding and portfolio limitations, deposits shall be distributed as evenly as possible between financial institutions.

INVESTMENT VEHICLES

STATE OF CALIFORNIA LIMITATIONS

As provided in Sections 53601, 53635, and 16429.1 of the Government Code, the State or California limits the investment vehicles available to local agencies as summarized by the following:

Government Agency Issues

As authorized in Government Code Sections 53601(a) through (e), this category includes a wide variety of government securities. There are no portfolio limitations on the amount; however, the maturity term for these investment vehicles may not exceed five (5) years unless approved by the Council. As discussed below, special authority is granted to the Finance Director and/or Treasurer to invest proceeds from debt issues (reserve funds) for a period not to exceed the term of the debt. These securities include the following:

- ☐ Local government bonds or other indebtedness
- ☐ State bonds or other indebtedness
- ☐ U. S. Treasury notes or other indebtedness secured by the full faith and credit of the federal government
- ☐ Other federal agency securities such as issues by the Government National Mortgage Association (GNMA's), Federal National Mortgage Association (FNMA's), and Small Business Administration.

Banker's Acceptances

As provided in Government Code Section 53601(f), forty percent (40%) of the portfolio may be invested in Banker's Acceptances that are eligible for purchase by the Federal Reserve System, although no more than thirty percent (30%) of the portfolio may be invested in Bankers' Acceptances with any one commercial bank. Maturity period cannot exceed one hundred eighty (180) days.

INVESTMENT VEHICLES (continued)

Commercial Paper

As authorized in Government Code Section 53601(g), fifteen percent (15%) of the portfolio may be invested in "prime" commercial paper as rated by Moody's or Standard and Poor's, with maturities not to exceed two hundred seventy (270) days nor ten percent (10%) of outstanding paper of issuer. This percentage may be increased to thirty percent (30%) if the dollar weighted average maturity does not exceed thirty-one (31) days. There are a number of other qualifications regarding investments in commercial paper based on the financial strength of the corporation.

Negotiable Certificates of Deposit

As authorized in Government Code Section 53601(h), thirty percent (30%) of its portfolio may be invested in negotiable certificates of deposit issued by commercial banks.

Repurchase and Reverse Repurchase Agreements

As authorized in Government Code Section 53601(i), repurchase agreements are agreements between the local agency and seller for the purchase of government securities to be resold at a specific date and for a specific amount. Repurchase agreements are generally used for short-term investments. The legal limitation on the maturity period for a repurchase agreement is for one (1) year with the required market value underlying the agreement at one hundred two percent (102%) of the funds borrowed with the value adjusted quarterly. Reverse repurchase agreements are agreements between the local agency and buyer for the sale of government securities to be repurchased at a specific date and for a specific amount. Reverse repurchase agreements require the prior approval of the Council. Repurchase agreements and reverse repurchase agreements can only be made with primary dealers of the Federal Reserve Bank of New York.

Corporate Notes

As authorized in Government Code Sections 53601(j), local agencies may invest in corporate notes issued by corporations organized and operating in the United States with a maximum maturity period of five (5) years in an amount not to exceed thirty percent (30%) of the agency's portfolio.

Diversified Management Companies (Mutual Funds)

As authorized in Government Code Sections 53601(k), local agencies are also authorized to invest in shares of beneficial interest issued by diversified management companies (DMC's) as defined in Section 23701(m) of the Revenue and Taxation Code in an amount not to exceed twenty percent (20%) of the agency's portfolio. There are a number of other qualifications and restrictions regarding allowable investments in corporate notes and share of beneficial interest issued by DMC's.

INVESTMENT VEHICLES (continued)

Time Certificates of Deposit

As authorized in Government Code Section 53601(n), Certificates of Deposit are fixed term investments which are required to be collateralized 110% by eligible pooled securities. The pool is administered by the State, and is composed of a wide variety of government securities, including those indicated above (except municipal bonds), as well as promissory notes secured by first mortgages on improved residential property located in the State. There are no portfolio limits on the amount, however the maturity period for this investment vehicle may not exceed five (5) years unless approved by the Council.

Local Agency Investment Fund

As authorized in Government Code Section 16429.1, local agencies may invest in the Local Agency Investment Fund (LAIF), a money market fund that allows local agencies to pool their investment resources. Current policies of LAIF set minimum and maximum amounts of monies that may be invested as well as maximum numbers of transactions that are allowed per month.

CITY AND AGENCY POLICIES

Allowable Investment Vehicles

The Finance Director and/or Treasurer is authorized to invest in any of the investment vehicles allowed by Sections 53601, 53635 and 16429.1 of the Government Code with the exception of financial futures or option contracts. Exclusion of these vehicles is consistent with the overall objective of achieving reasonable yields on public funds while minimizing risk and capital losses. Although the potential exists for greater interest yields with these vehicles, it is believed that the potential level of risk exceeds their benefits except in very limited circumstances. Accordingly, Council approval is required on a case-by-case for any investments in financial futures or option contracts.

Term

Reserve funds from the proceeds of debt issues may be invested by the Finance Director/Treasurer in government agency securities with terms exceeding five (5) years if the maturity of such investments are made to coincide as nearly as practicable with the life of the debt issue. In all other cases, Council approval to make investments with terms in excess of five (5) years is required on a case-by-case basis.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds to ensure that appropriate liquidity is maintained to meet ongoing obligations.

INVESTMENT VEHICLES (continued)

Exemptions

These policies do not apply to deferred compensation plans. Individual investment policies are adopted by each deferred compensation plan and approved independently by Council. Solely controlled by the individual participant who directs individual investments within their account. Bond/Loan proceeds of debt issuance that shall be invested in accordance with permitted investment provisions of their specific bond/loan indentures.

INVESTMENT MATURITY

In addition to the risks associated with the credit-worthiness of the financial institution and the security of the investment vehicle, the maturity period of investments is also a significant consideration in the management of the portfolio. In order to minimize the impact of market risk, it is intended that all investments will be held until maturity. The following guidelines will be used:

- ☐ Projected cash flow requirements are the primary factor to be used in determining investment maturity terms. After cash flow needs have been met, yield considerations will be the next factor used in determining maturity terms, with the expectation that longer maturity periods will generally yield greater returns on investments.
- ☐ Investments may be sold prior to maturity for cash flow or appreciation purposes; however, no investment shall be made based solely on yields resulting from anticipated capital gains.
- ☐ Investments longer than one (1) year may be made if consistent with the cash flow needs and related intent of holding until maturity.

In accordance with the guidelines above, the following targets will be used in guiding the maturity mix of the overall portfolio exclusive of longer-term investments of debt service reserves:

- Investments less than 6 months: 25%, but no less than \$5 million, whichever is greater
- No investments longer than 5 years unless authorized by Council

CASH MANAGEMENT

To achieve a reasonable return on funds, the following cash management practices will be followed:

- ☐ Maintain maximum investment of all funds not required to meet immediate cash flow needs while maintaining adequate compensating balances as may be required under the banking services agreement.
- ☐ Pool resources available for investment from all funds, with interest earnings allocated to each fund in accordance with generally accepted accounting principles.
- ☐ Maximize cash flow through deposit of all cash receipts, direct deposits and wire transfers whenever available, and appropriate timing of payments to vendors.
- ☐ Maximize cash flow through use of only one general operating bank account.

EVALUATION OF INVESTMENT PERFORMANCE

As indicated in the Introduction section of this document, it is the primary investment objective to achieve a reasonable rate of return on public funds while minimizing risks and preserving capital. In evaluating the performance of the portfolio in achieving this objective, it is expected that yields on investments will regularly meet or exceed the average return on three month U. S. Treasury Bills.

INVESTMENT REPORTING

Consistent with Sections 16481.2 and 53646 of the Government Code, the Finance Director and/or Treasurer shall submit an annual Statement of Investment and Management Plan to the Council and Agency Board for review and approve at a public meeting. The Finance Director and/or Treasurer is responsible for developing and maintaining this Investment Policy and Management Plan.

In addition to the submittal of an annual Statement of Investment Policy and Management Plan, the Department of Finance shall provide the Council and City Manager with a quarterly investment report, which at a minimum, provides the following information for each investment or security:

- ☐ Type of investment
- ☐ Name of issuer or broker/dealer (financial institution)
- ☐ Maturity date, par and dollar amount for each investment
- ☐ Weighted average maturity of investments
- ☐ Any funds, investments programs under management of contracted parties
- ☐ Total cost and market value, including source of this valuation, of the portfolio
- ☐ A description of the compliance with the Statement of Investment and Management Policy
- ☐ demonstrating that expenditure requirements can be met in the following six (6) months
- ☐ Other information regarding the portfolio as appropriate

The Quarterly Investment Report shall include all investments as of the end of the quarter from all funds held in the portfolio, including funds held and invested by trustees exclusive of deferred compensation plan funds; and shall be issued within thirty (30) days after the end of the quarterly reporting period.

Market value adjustments, as required under Government Accounting Standards Board (GASB) Statement No. 31, are treated as year-end accounting adjustments to the financial records of the City and Successor Agency to the former Redevelopment Agency. Quarterly investment reports will demonstrate market fluctuations and continue to compare purchase price versus market value status. Accounting adjustments under GASB Statement No. 31, which compare changes to beginning and ending par market value in each fiscal year are not included as part of quarterly investment reports.

GLOSSARY OF TERMS

Accrued Interest - Interest earned but not yet received.

Active Deposits - Funds which are immediately required for disbursement.

Amortization - An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.

Bankers' Acceptance - 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.

Basis Point - One basis point is one hundredth of one percent (.01%).

Bond - A financial obligation for which the issuer promises to pay the bondholder a specific stream of future cash flows, including periodic interest payments and a principal repayment.

Book Value - The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

Broker - A broker brings buyers and sellers together for a commission. He does not take a position or make a recommendation.

Certificate of Deposit - A time deposit insured up to \$100,000 by the FDIC at a set rate with a specific period of time and maturity evidenced by a certificate.

Collateral - Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.

Credit Analysis - A critical review and appraisal of the economic and financial conditions or of the ability to meet debt obligations.

Credit Risk - Risk of loss due to failure of the issuer of a security. Loss may be mitigated by investing in investment grade securities and diversifying the investment portfolio so that the failure of any one issuer does not unduly harm the City's capital base and cash flow.

Current Yield - The interest paid on an investment expressed as a percentage of the current price of the security.

Custody - A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

Delivery vs. Payment (DVP) - There are two methods of delivery of securities: a) Delivery of securities with a simultaneous exchange of money for the securities, and b) Receipt is delivery of securities with an exchange of a signed receipt for the securities.

GLOSSARY OF TERMS (continued)

Discount - The difference between the cost of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale is considered to be at a discount.

Diversification - Dividing investment funds among a variety of securities offering independent returns and risk profiles.

Fannie Mae - Trade name for the Federal National Mortgage Association (FNMA), a U.S. sponsored corporation.

Federal Reserve System - The central bank of the U.S. which consists of a seven member Board of Governors, 12 regional banks and 5,700 commercial banks that are members.

Federal Deposit Insurance Corporation (FDIC) - Insurance provided to customers of a subscribing bank which guarantees deposits to a set limit (currently \$100,000) per account.

Fed Wire - A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.

Freddie Mac - Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. sponsored corporation.

Ginnie Mae - Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the U.S. Government.

Idle (Inactive) Deposits - Funds not immediately needed for disbursement.

Interest Rate - The annual yield earned on an investment, expressed as a percentage.

Liquidity - Refers to the ability to rapidly convert an investment into cash without a substantial loss of value.

Local Agency Investment Funds (LAIF) - A pooled investment group operated by the State of California for public agencies.

Market Value - The price at which a security is trading and could presumably be purchased or sold.

Maturity - The date upon which the principal or stated value of an investment becomes due and payable.

Portfolio - Collection of securities held by an investor.

GLOSSARY OF TERMS (continued)

Prudent Investor Rule - An investment standard. Investment in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

Purchase Date - The date on which a security is purchased for settlement on that or a later date.

Rate of Return - The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Repurchase Agreement (REPO) - A transaction where the seller (bank) agrees to buy back from the buyer (City) the securities at an agreed upon price after a stated period of time.

Reverse Repurchase Agreement (REVERSE REPO) - A transaction where the seller (City) agrees to buy back from the buyer (bank) the securities at an agreed upon price after a stated period of time.

Risk - Degree of uncertainty of return on an asset.

Safekeeping - See Custody.

Sallie Mae - Trade name for the Student Loan Marketing Association (SLMA), a U.S. sponsored corporation.

Treasury Bills - U.S. Treasury Bills which are short-term, direct obligations of the U.S. Government issued with original maturities of 13, 26 and 52 weeks; sold in minimum amounts of \$10,000 in multiples of \$5,000 above the minimum. Issued in book entry form only. T-bills are sold on a discount basis.

U.S. Government Agencies - A colloquial term for instruments issued by various U.S. Government Agencies most of which are secured only by the credit worthiness of the particular agency.

Yield - The rate of annual income return on an investment, expresses as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

December 12, 2017

Item No. **8f(2)**

Honorable Mayor and Members
of the Marina City Council

City Council Meeting
of December 19, 2017

**CITY COUNCIL CONSIDER ADOPTING RESOLUTION NO. 2017-,
APPROVING INVESTMENT POLICY AND MANAGEMENT PLAN
FOR CITY OF MARINA AND SUCCESSOR AGENCY TO THE
FORMER MARINA REDEVELOPMENT AGENCY**

REQUEST:

It is requested that the City Council:

1. Consider adopting Resolution No. 2017- approving Investment Policy and Management Plan for City of Marina and Successor Agency to the former Marina Redevelopment Agency.

BACKGROUND:

To establish strategies, practices and procedures to be used in administering the financial investments of the City and Successor Agency to the former Marina Redevelopment Agency, it is both important and necessary to have a prudent and safe investment policy in place.

The primary investment objective of such policy is to achieve a reasonable rate of return on public funds while minimizing the potential for capital losses arising from market changes or issuer default.

Although the generation of revenues through interest earnings on investments is an appropriate goal, the primary consideration in the investment of funds is capital preservation in the overall portfolio.

The Marina City Council is required to review and approve the City and Successor Agency to the former Marina Redevelopment Agency Investment Policy and Management Plan (“Policy and Plan”) to ensure that the goals and objectives for such plan are appropriate.

ANALYSIS:

Included in the scope of the Investment Policy and Management Plan are the following major guidelines and practices which are to be used in achieving the primary investment objective (“**EXHIBIT A**”):

- Investment Authority and Responsibilities
- Capital Preservation and Risk
- Eligible Financial Institutions
- Investment Vehicles
- Investment Maturity
- Cash Management
- Evaluation Of Investment Performance
- Investment Reporting

These guidelines apply to all cash-related assets included within the scope of the audited financial statements held either directly by the City, Successor Agency or held and invested by trustees or fiscal agents. The only exception is funds invested in the City's deferred compensation plan, which is controlled by federal law, specific provisions of the City's adopted plan, and individual employee decisions.

No changes were made to the Policy and Plan since it was last reviewed and approved by the City Council and Marina Redevelopment Agency Board at the regular meeting of January 18, 2017 by adoption of Resolution No. 2017-001.

FISCAL IMPACT:

None

CONCLUSION:

This request is submitted for City Council consideration and possible action.

Respectfully submitted,

Lauren Lai, CPA
Finance Director
City of Marina

REVIEWED/CONCUR:

Layne P. Long
City Manager
City of Marina

Honorable Mayor and Members
of the Marina City Council

City Council Meeting
of October 16, 2018

**CITY COUNCIL AND THE SUCCESSOR AGENCY BOARD CONSIDER
ADOPTING RESOLUTION NO. 2018-, APPROVING THE REVISED
INVESTMENT POLICY FOR THE CITY OF MARINA**

REQUEST:

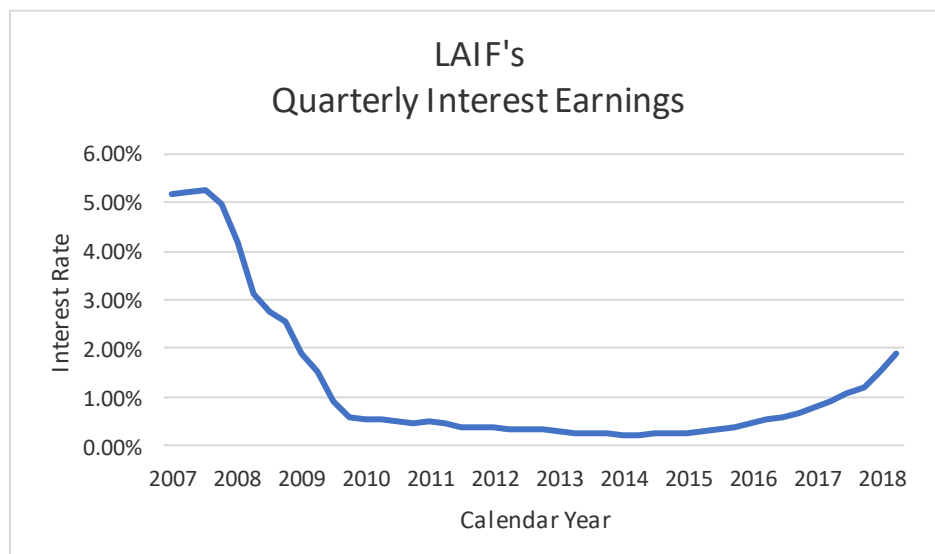
It is requested that the City Council adopt a resolution approving a revised investment policy that:

- 1) Increases dollar limits on time deposits to the current level of Federal Depository Insurance Corporation (FDIC) levels of \$250,000.
- 2) Permit the use of broker dealers beyond Primary Federal Reserve Dealers who are licensed by the SEC and have been in business for at least 5 years.
- 3) Allow the City to work with broker/dealers located within the United States, not just California
- 4) Revise the City portfolio investment horizon to:
 - a. Have at least \$5 million or 25% of the portfolio in investments maturing within 6 months or less; and,
 - b. No investment longer than 5 years unless authorized by Council

BACKGROUND:

The City for the past decade has not been actively involved in purchasing fixed income investments, despite having over \$30 million in cash. The simple reason has been that investment returns were so low, it was not worth much effort to consider investment alternatives. As a result, the City has invested its money with Local Agency Investment Fund, a State of California run fund. The fund is safe. Investments are readily available and almost all California cities use this fund. However, the investment environment has changed as shown in Table I, LAIF's Quarterly Interest Earnings.

Table I



After many years in which investment practice did not greatly alter interest earnings, that

environment has changed. Although LAIF remains a good investment alternative, particularly given that cash may be withdrawn daily, the portion of the City's available cash not needed within the near future may be better served by investing in alternative, high-quality investments such as Treasury and Agency notes.

As of LAIF's last quarterly interest allocation, the fund paid 1.9%. Contrast that rate against a recent listing shown in Table II, Wall Street Journal, Treasury Note Offerings.

Table II
Wall Street Journal, Treasury Note Offerings

BONDS, RATES & CREDIT MARKETS OVERVIEW		
Treasurys		
	Price Chg	Yield (%)
1-Month Bill	1/32	2.051
3-Month Bill	0/32	2.182
6-Month Bill	0/32	2.372
1-Year Note	0/32	2.599
2-Year Note	0/32	2.807
3-Year Note	-0/32	2.890
5-Year Note	-1/32	2.952
7-Year Note	-3/32	3.031
10-Year Note	-5/32	3.074
30-Year Bond	-13/32	3.226

A one-year note offers 0.70% more than LAIF. Increasing the City's earnings rate by just half that amount would increase the City's interest earnings by over \$100,000. With relatively a small effort, Finance will move to improve the City's cash management practices and increase interest earnings.

However, prior to taking advantage of the current investment environment, staff has reviewed the City's current investment policy and proposes four changes.

ANALYSIS:

Finance recommends the following changes to the City's investment policy:

- 1) In October of 2008, the FDIC Insurance Level has changed from \$100,000 to \$250,000. The City's current policy has several references limiting investments to \$100,000 because of this insurance coverage. Staff recommends increasing the limit to \$250,000 in the City's investment policy. See pages 9, 10 and 12.
- 2) The City should deal with reputable institutions but not necessarily primary dealers. The Federal Reserve qualifies brokers it will work with to carry out monetary policy. Currently, there are 23 qualified brokers. One of the dealers is the City's bank, JP Morgan Chase. Although the City will use Chase in seeking investment options, the size and frequency of purchases are sometimes better served by using secondary dealers that cater to smaller accounts like the City. As a result, staff would recommend the following change in the investment policy found on page 9:

~~Investments shall be placed with three institutions selected from an established list of qualified dealers in US Government Securities.~~

Investments shall be placed with qualified institutions who have submitted to the City their financials, have been established for at least 5 years and are registered

with the Securities and Exchange Commission as broker or dealers except when placing certificates of deposits with financial institutions at amounts less than the FDIC insurance level. The City will strive to have at least one broker/dealer who is also a primary dealer with the Federal Reserve.

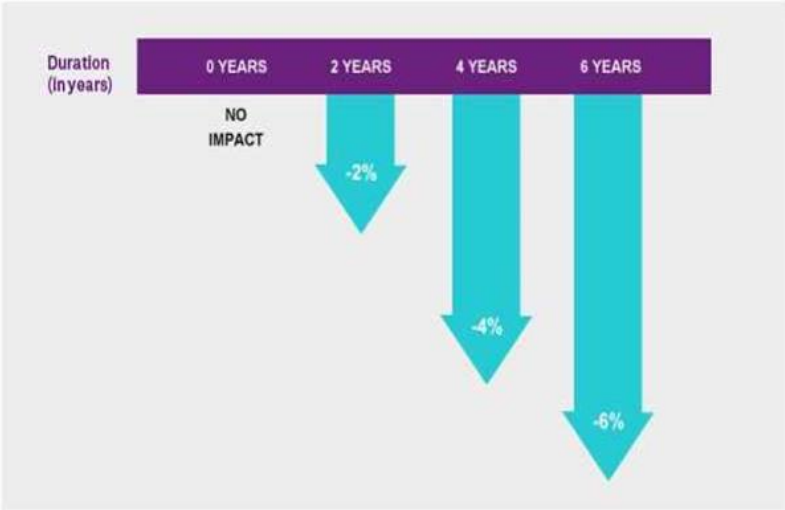
Primary dealers’ institutional desks service clients that will regularly trade in blocks of \$100 million or more. The City will be purchasing blocks of \$5 to \$1 million dollars and probably will not conduct more than one or two trades a month after an initial effort to move some of the City’s money out of LAIF.

- 3) Because the City is looking for qualified dealers beyond primary dealers, sometimes these firms are not in California. In fact, many primary dealers are not in California. Finance recommends striking this requirement found on page 9. The real protection is dealing with firms that are registered with SEC, have shown longevity in the industry and ensuring that the City does not purchase an investment in which it does not take delivery.
- 4) The City has set investment maturity targets for its portfolio on page 13 as follows:

Within 1 year	70%
Within 5 years	20%
Greater than 5 years	<u>10%</u>
Total	<u>100%</u>

The rationale for keeping investments shorter rather than longer is that shorter term fixed income investments will fluctuate less in value than longer term investments. For example, if interest rates increase by 1%, the principal value of investments changes as shown in Table III, % Change in bond prices if rates spike 1%.

Table II
% Change in bond prices if rates spike 1%
Hypothetical illustration of the effects of duration, exclusively on bond prices



The losses noted in the chart assumes that the investment is sold. If the investment is held to maturity, the loss will never be realized. The market value loss is designed to compensate a current investor who is buying the investment in an environment in which alternative investments are

yielding higher rates than what is shown on the security. For example, if an investor purchases a 5%, one-year treasury and the following day interest rates rise to 6%, the principal of the investment must drop by 1% in order to yield 6% (5% in interest paid plus 1% in appreciated value of the security). But if the investor holds the security to maturity, no loss is taken on the investment; however, the economic opportunity to purchase a 6% investment will not occur.

To protect the City against such investment losses, Finance recommends determining a set amount that should always be available which would allow the City to avoid a forced sale of investments to meet cashflow needs.

To determine what the City's cash flow needs, Finance has considered the revenues of the City. Only property taxes do not come in on a monthly basis. Property taxes are principally paid in January and May. Thus, the City's minimum cash available should be at least ½ of its budgeted property tax. For this year, the City's property tax \$6.2 million. Thus, at least \$3.1 million should be in very short investments like LAIF. As a result, finance recommends changing the investment maturity section found on page 13 to the following:

- Investment less than 6 months: 25%, but no less than \$5 million, whichever is greater.
- No investment longer than 5 years unless authorized by Council.

With these changes, Finance is recommending a portfolio which would look something like the following as shown in Table IV, Proposed Portfolio:

Table IV
Proposed Portfolio

Proposed Investment Portfolio									
30 million dollars									
<u>Now</u>		<u>Proposed</u>	Amount		Maturity	Type	Maturity (Days)	Current Rate	Weighted Rate
			Share	(MM)					
LAIF	100%	LAIF	50%	15	0		0	1.90%	0.95%
		1 year	15%	4.5	365 T-Notes		54.75	2.50%	0.38%
		1.5 yr	15%	4.5	545 T-Notes		81.75	2.60%	0.39%
		2 yr	20%	6	730 5 mm T-Notes		146	2.70%	0.54%
					1 Million NCDs				
	100%		100%				282.5		2.26%
yield	1.9%							Change	0.35500%
								Increased Earnings	106,500.00

FISCAL IMPACT:

The proposed changes will allow the City to take advantage of increased investment opportunities for its available cash while still maintaining the safety of these cash assets.

CONCLUSION:

This request is submitted for City Council consideration and possible action.

Respectfully submitted,

Eric Frost
Interim Finance Director
City of Marina

REVIEWED/CONCUR:

Layne Long
City Manager
City of Marina