

**CITY OF TUSTIN**  
**STATEMENT OF INVESTMENT POLICY FOR 2016**

**I. GENERAL**

**PURPOSE**

This statement is intended to provide guidelines for the investment of the City's temporary idle cash, and to outline the policies for maximizing the efficiency of the City's Cash Management System. The ultimate goal is to enhance the economic status of the City while protecting its pooled cash. It is the intent of the City Council that all deposit and investment activities authorized by this policy shall be at the sole discretion of the City Treasurer as to selection and appropriateness.

**SCOPE**

It is intended that this policy cover all funds and investment activities under the direct authority of the City.

**OBJECTIVE**

The City's Cash Management System is designed to monitor and forecast expenditures and revenues, thus enabling the City to invest funds to the fullest extent possible. The City investments meet the criteria established for safety and availability. The investment portfolio will be diversified to avoid incurring unreasonable risks regarding specific security types or individual financial institutions.

**POLICY**

The City of Tustin operates its temporary pooled idle cash investments under the prudent man rule (Civil Code Sec. 2261 et seq. and Government Code Section 53600.3). The prudent man rule states, in essence, that "in investing....property for the benefit of another, a trustee shall exercise the judgment and care, under the circumstances then prevailing, which men of prudence, discretion and intelligence exercise in the management of their own affairs...." This affords the City a broad spectrum of investment opportunities so long as the investment is deemed prudent and allowable under current legislation of the State of California (Government Code Section 53600 et seq.) and the guidelines established by the following prioritized criteria for selecting investments:

1. **Safety.** It is the primary duty and responsibility of the City, City Council, Finance Director/City Treasurer (Treasurer), City Manager, and City Staff at all times to protect, preserve and maintain intact the principal placed in trust with the City on behalf of the citizens of the community.
2. **Availability.** An adequate percentage of the portfolio shall be maintained in liquid, short-term securities which can be converted to cash as necessary to meet disbursement requirements.
3. **Yield.** Yield is to be a consideration only after the basic requirements of adequate safety and availability have been met.

**Legal Investment Authority.** Temporarily idle monies shall be invested in accordance with State and local laws and regulations and this Statement of Investment Policy.

**Statement of Investment Policy.** Each year after review and report by the Audit Commission, the Treasurer shall submit to the City Council a proposed Statement of Investment Policy for Council consideration and adoption as submitted, or as revised by the City Council.

**Cash Purchase Only.** All securities shall be purchased on a delivery vs. payment (DVP) basis only. Securities shall not be purchased on margin, credit or for other than full cash payment and shall not be pledged as collateral.

**Reverse Repurchase Agreements.** Funds shall not be invested directly in reverse repurchase agreements.

**Selling Securities Prior to Maturity.** Generally, losses will be acceptable on a sale before maturity if the reinvested proceeds will earn income with a present value greater than the present value of the income that would have been generated by the old investment, considering any capital loss or foregone interest on the original investment.

Profits from market volatility of Treasury securities only are acceptable so long as each holding when repurchased exceeds the original purchase yield. For example, a Treasury two year note is bought at auction at a 2.04 yield and sold five days later at 1.99. That note could be repurchased at a minimum yield of 2.04.

**Performance Standards.** The investment portfolio will be designed to obtain a market-average rate of return during budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow needs. The market-average rate of return is defined as the U.S. Treasury security yield which most closely matches the portfolio's weighted average maturity (WAM) as stated on the quarterly investment report, using a 12-month moving average.

**Quarterly Reports and Role of the Audit Commission.** The Treasurer shall render a quarterly report to the City Council, City Manager and internal and external auditors, which states its relationship to the Statement of Investment Policy.

Required elements of the quarterly report are as follows:

- a. Type of investment
- b. Institution
- c. Date of maturity
- d. Par value
- e. Amount of deposit or cost of the security
- f. Rate of interest/discount and yield
- g. Statement relating the report to the Statement of Investment Policy
- h. Statement that there are sufficient funds to meet the next 6 months' obligations
- i. The current book value
- j. The current market value
- k. Average portfolio life
- l. Average portfolio yield
- m. Current treasury yield that most closely matches average portfolio life
- n. Ratings of all medium term notes, municipal and state securities, commercial bank time drafts, and commercial paper to be shown
- o. Summary of investments with total percentage by type of investment
- p. Reflect historical rates of returns

Reports of the State Treasurer's Local Agency Investment Fund (LAIF) or other qualified funds shall be accepted in lieu of subparagraphs a. through l. to support City deposits in the funds.

At least two Commissioners from the Audit Commission shall receive monthly reports from the Treasurer to review and comment to the City Council, and raise any issues or concerns to the Treasurer to be forwarded to City Council. The Audit Commission's responsibility will be limited to the review of types and limits of investments for compliance with the investment policy, and not for the review of appropriateness of individual investments or rates of return. The Audit Commission Chair or his designee shall sign the quarterly investment reports submitted to the City Council along with the Treasurer.

**II. GUIDELINES.** The following directions and limitations are established hereby to direct and control investment activities in such a manner that above-stated goals are achieved.

**Delegation of Authority.** California Government Code Section 53607 provides the authority for the legislative body of the local agency to invest funds of the local agency or to delegate that full responsibility to the Treasurer of the local agency. Under City of Tustin

Ordinance No. 832, the City Council has authorized the Treasurer to invest City funds in accordance with California Government Code Section 53600 et seq.

**Ethics and Conflicts of Interest.** The Treasurer shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair the ability to make impartial investment decisions. The Treasurer is governed by Government Code Section 1090 et seq.; the Political Reform Act of 1974 regarding disclosure of material financial interests; disqualification requirements and the City's gift regulation.

**Investment Transactions.** Every investment transaction shall be reviewed, authorized and documented by the Treasurer.

**Pooled Cash.** Wherever practical, the City's cash shall be consolidated into one bank account and invested on a pooled basis. Interest earnings shall be allocated according to each fund's cash balance as required.

**Competitive Bids and Offers.** Purchase and sale of securities shall be made on the basis of documented competitive offers and bids whenever practical. Documented opinions of reasonableness are acceptable substitutes if necessary.

**Cash Forecast.** The cash flow for the City shall be analyzed with the receipt of revenues and maturity of investments scheduled so that adequate cash will be available to meet disbursement requirements.

**Investment Limitations.** Security purchases, deposits and holdings shall be maintained within statutory limits imposed by the California Government Code 53601 et-seq. and shall include only the following:

- a. Negotiable certificates of deposit (NCDs) issued by a nationally or state chartered bank, a state or federal credit union, or a federal licensed or state licensed branch of a foreign bank. NCDs shall not exceed thirty percent (30%) of total portfolio assets.
- b. Prime quality Commercial Paper, highest letter and numerical short term debt ratings by a Nationally Recognized Standard Rating Organization (NRSRO) and A1 or P1 or equivalent rating, if any, of other debt; but not to exceed fifteen (15) percent of invested funds at the time of purchase and limited to a maximum maturity of two hundred seventy (270) days. Average weighted maturity shall not exceed ninety (90) days if Commercial Paper exceeds ten (10) percent of total portfolio assets.
- c. Government-sponsored pools, such as California State Treasurer's Local Agency Investment Fund (LAIF), and Mutual Funds if, in the judgment of the Treasurer, they

meet MTA of US&C suggested due diligence standards, or are rated in the highest category by a nationally recognized rating service.

- d. Commercial Bank Time Drafts (Bankers Acceptances), highest letter and numerical short term debt ratings by a NRSRO and A1 or P1 or equivalent rating, if any, of other debt; shall have a maximum maturity of one hundred eighty (180) days and shall not be in excess of twenty-five percent (25%) of invested funds at the time of purchase and no more than thirty percent (30%) of the total portfolio may be invested in the bankers' acceptances of any one commercial bank.
- e. Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five (5) years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated A or better by a NRSRO. Purchases may not exceed fifteen percent (15%) of invested funds at the time of purchase and five percent (5%) of the total portfolio of any one issuer's securities.
- f. Municipal and State Securities. Bonds, notes, warrants, or other evidences of indebtedness of any local or state agency within the 50 United States including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or state, or by a department, board, agency, or authority of the local agency or state and shall not exceed fifteen percent (15%) of total portfolio and five percent (5%) of the total portfolio of any one issuer's securities.
- g. Federal Agency bonds or notes, but not in excess of seventy-five percent (75%) of invested funds at time of purchase with a maximum maturity of five (5) years remaining to stated final maturity.
- h. U.S. Treasury securities not exceeding five (5) years to final maturity.
- i. Investment Contracts. Bond proceeds may be placed in investment contracts if authorized by borrowing documents. Guarantors of such contracts shall have at least an AA rating by two major investment services. Contracts shall contain market value protection in case of downgrading by including delivery of cash or Treasury securities, at the election of the City.
- j. Money Market Funds. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C.

Sec. 80a-1, et seq.). Fund rating must be rated at the second highest rating category from two NRSROs.

- k. **Repurchase Agreements.** Investment in repurchase agreements may be made when the term of the agreement does not exceed one year. The market value of securities that underlie a repurchase agreement shall be valued at 102 percent or greater of funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.

**Liquidity.** The marketability (salability) of a security shall be considered at the time of purchase since the security may have to be sold at a later date to meet an unanticipated cash demand.

**Maturity Limitations.** As a general rule, intermediate-term maturities shall not represent a significant percentage of the total portfolio. Unless previously authorized by City Council, no investment may have a term final stated maturity longer than five (5) years. At the time of purchase, the short term portion of the total investment portfolio shall have maturities of one year or less totaling at least 75% of the General Fund budgeted expenditures for the current fiscal year.

**Collateral.** Collateral requirements are addressed in California Government Code Section 53652. All active and inactive deposits must be secured at all times with eligible securities in securities pools pursuant to Sections 53656 and 53657. Eligible securities held as collateral shall have a market value in excess of the total amount of all deposits of a depository as follows:

- government securities at least 110 percent.
- mortgage backed securities at least 150 percent.

**Authorized Broker/Dealers.** Investments shall be transacted only through Authorized Broker/Dealers which have been reviewed and approved by the Treasurer for reliability, credit worthiness and trustworthiness.

**Diversification.** The portfolio shall consist of various types of securities approved by statute and this Statement of Investment Policy, as well as varied issuers and maturities. In regards to commercial paper and medium-term notes, no more than 5% of the total two combined shall be with the same issuing company.

**Safekeeping.** Securities purchased from broker/dealers shall be held in third party safekeeping by the trust department of the local agency's bank, or by other third party trustees designated by the Treasurer. Said securities shall be held in the name of the City with the trustee executing agreements and confirmations of investment transactions as directed by the City Treasurer.

**III. STRATEGY.** Strategy refers to the plan to manage financial resources in the most advantageous manner.

**Economic Forecasts.** The Treasurer periodically may obtain economic forecasts from economists and financial experts through bankers and broker/dealers in order to assist in the formulation of investment plans.

**Implementing Investment Strategy.** The Treasurer shall execute investment transactions which conform to current and anticipated cash requirements, interest rate trends, and stated investment strategy.

**Relationships.** The Treasurer shall maintain a close working relationship with the departments of the City to anticipate and accommodate disbursements of City funds. For liquidity planning purposes, Department Heads shall apprise the Treasurer when large expenditures (over \$500,000) are anticipated.

**Preserve Portfolio Value.** The Treasurer shall develop an investment strategy that maintains earnings consistent with defined "Performance Standards" (page 2) and preserves the value of the City's portfolio.

**Internal Controls.** The Finance Department shall establish a system of internal controls which shall be reviewed annually, with the independent Auditor. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent action by employees and officers of the City of Tustin. The Finance Department will maintain the City's Investment Records in compliance with Government Accounting Standards Board Rule 31 (GASB 31).

The City attempts to invest 100% of all available funds through daily and projected cash flow determinations and after consideration of bank requirements for clearings and services. Management of idle cash and investment transactions is the responsibility of the Treasurer. The City's investment philosophy is to insure that money is always safe and available when needed.

The Treasurer shall annually review the City's Investment Policy with the City of Tustin Audit Commission. Proposed amendments will be brought to the City Council for final action upon the recommendation of the Treasurer.