



CITY COUNCIL AGENDA REPORT

MEETING DATE: March 1, 2004

ITEM NUMBER:

SUBJECT: Revision of the Fiscal Year 2003-2004 Statement of Investment Policy

DATE: February 13, 2004

FROM: Marc Puckett, Director of Finance

PRESENTATION BY: Marc Puckett, Director of Finance

FOR FURTHER INFORMATION CONTACT: Marc Puckett at (714)754-5243

RECOMMENDED ACTION

Adopt Resolution approving the revision of the Investment Policy for the 2003-04 fiscal year.

BACKGROUND

The California Government Code Section 53646 requires the City Treasurer to submit a "Statement of Investment Policy" to the legislative body each fiscal year. Effective January 1, 1996, this Code Section was reinstated and requires annual adoption of the policy statement. This Investment Policy has been designed according to the specific needs of the City of Costa Mesa and complies with the California Government Code, the guidelines recommended by the California Municipal Treasurer's Association.

The Investment Policy was submitted to City Council and adopted by the Council at its June 16, 2003, City Council meeting. Since that time, the Treasurer has determined additional cash management strategies that may be employed to increase the investment earnings of the City by expanding the flexibility of two of the policy limitations. Expansion of these two limitations is expected to add little or no risk to the investment portfolio.

The two policy limitations recommended to be revised are 1) increasing the limit for investments in any one Government Sponsored Enterprises (Federal Agency securities) from 25% to 40% of the total investment portfolio and 2) decreasing the duration limitation for the minimum percentage of the investment portfolio that must mature within one year from 25% to 20%.

The single most important statutory duty of the City Treasurer is set forth in California Government Code Section 41001 which provides that the "City Treasurer shall receive and safely keep all money coming into the Treasury." In light of this responsibility, the California Municipal Treasurer's Association has established the following as a guideline to prudent investment strategy:

- **Legal Investment Authority:** Temporary idle monies are to be invested in accordance with state and local statutes and in compliance with California Government Code Sections 53600 et. seq.

- Safety: It is the primary duty and responsibility of the City Treasurer to protect, preserve, and maintain intact cash and investments placed in trust with the City Treasurer on behalf of the City of Costa Mesa.
- Liquidity: An adequate percentage of the portfolio should be maintained in liquid short-term securities, which can be converted to cash if necessary to meet disbursement requirements.
- Yield: The City Treasurer may obtain the highest possible within the parameters of the City's authorized investments, provided the criteria for safety and liquidity have been met.

These basic investment objectives are strictly followed. However, the minor changes that are proposed in the City's investment parameters of authorized investments will provide the City with increased investment earnings without compromising the safety and liquidity of the portfolio. These minor adjustments are outlined in greater detail below.

ANALYSIS

The 2003-2004 Investment Policy adopted on June 16, 2003, has been revised to reflect two minor changes to the parameters of authorized investments. These changes are proposed to provide the City Treasurer greater flexibility and additional cash management strategies in managing the City's investment portfolio.

First, within Section VII, Authorized Investments, the limitation for investment in any one Federal Agency is proposed to be increased from a maximum of 25% to 40% of the total investment portfolio.

Federal government sponsored agency issues are guaranteed directly or indirectly by the United States Government. All agency obligations qualify as legal investments and are acceptable as security for public deposits. They usually provide higher yields than regular Treasury issues with all of the same advantages (i.e. minimal risk exposure). Currently, the City limits its investments to no more than 25% of its surplus funds in any one Federal Agency. Examples of Federal Agencies are the Federal Farm Credit Bank, Federal Home Loan Bank, and the Federal National Mortgage Association.

Increasing this limitation to 40% will allow the City Treasurer to adjust the investment portfolio based upon the frequency of issuance of securities by the Federal Agencies. Some Federal Agencies, by the nature of the services that they perform, are in the market at different times throughout the year, while other agencies are in the market almost daily. Increasing the maximum limitation for investment in any one agency security will allow the City Treasurer to adjust the investment portfolio based upon frequency of issuance of the Federal Agencies and thereby increase the overall rate of return within the portfolio. All Federal Agency securities are triple "A" rated, therefore, little or no risk is added to the investment portfolio by making this change.

Next, Section IX, City Constraints, sets a duration limitation that no less than 25% of the City's total portfolio must mature within a one-year period. This limitation is applied for liquidity purposes and to ensure that the City has sufficient funding to meet its obligations as they come due and further, to ensure that sufficient funds are on hand to address an unforeseen emergency

or event. Based upon a review of the City's cash flow needs over the past five years, the City Treasurer has determined that the City's overall investment earnings can be increased by reducing this liquidity constraint to a minimum of 20% of the outstanding investments maturing within a one-year time period. This proposed change will not impact the liquidity requirements of the City and sufficient funding will remain available throughout the year for the City to meet its obligations as they come due. In addition, based upon existing interest rates, this change may result in as much as \$120,000 in additional investment earnings on an annualized basis.

Whenever revisions to the Investment Policy are considered, the proposed revisions are reviewed and discussed with the Investment Oversight Committee at their meetings throughout the fiscal year. The proposed changes have been reviewed with the Committee and they have expressed support for the changes as presented.

FISCAL REVIEW

Changing the percentage limitation for investments in federal agency securities has no fiscal impact. Reducing the liquidity constraint to a minimum of 20% of the outstanding investments maturing within a one-year time period will increase investment earnings. Based upon existing market interest rates, this change may result in as much as \$120,000 in additional investment earnings on an annualized basis.

LEGAL REVIEW

The attached resolution and statement of investment policy have been reviewed and approved as to form by the City Attorney's Office.

Acting City Attorney

CONCLUSION

It is recommended that the City Council adopt the attached Resolution Number 2004-_____ approving the revisions to the Investment Policy for the 2003-04 fiscal year as noted herein.

MARC R. PUCKETT
Director of Finance/Treasurer

Attachments:

- (1) [Resolution](#)
- (2) [FY2003-2004 Revised Statement of Investment Policy](#)