



# *CITY COUNCIL AGENDA REPORT*

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MEETING DATE: JUNE 20, 2006

ITEM NUMBER:

SUBJECT: REVIEW OF THE FY 2006-2007 STATEMENT OF INVESTMENT POLICY

DATE: MAY 14, 2006

FROM: FINANCE DEPARTMENT

PRESENTATION BY: MARC R. PUCKETT, DIRECTOR OF FINANCE

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## **RECOMMENDED ACTION**

Adopt Resolution No. \_\_\_\_ approving the Statement of Investment Policy for Fiscal Year 2006-2007 and delegating the investment activities to the City Treasurer.

## **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 both the California Government Code and the guidelines recommended by the California Municipal Treasurer's Association.

The City Treasurer has the responsibility to submit a monthly Treasurer's Report to the City Council regarding status of receipts, disbursements, cash balances by fund and investment of cash balances. The Finance Department updates revenue and investment activity on a daily basis. The Treasury Management Division of the Finance Department analyzes the cash requirements of the City each morning in conjunction with the Director of Finance. Idle funds are invested daily to effectively maximize the City's investment earnings.

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 places in trust with the City Treasurer on behalf of the citizens 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.

## **ANALYSIS**

The 2005-2006 Investment Policy adopted on June 21, 2005, has been revised to reflect two noteworthy changes. First, a change is proposed in the diversification limit for investment in federal agency securities from 40% of the total investment portfolio to 60% of the total investment portfolio. Second, a change in the internal control structure is proposed to add a compliance test to ensure that the City's investment portfolio remains in compliance with the City's adopted investment policy.

State law provides that up to 100% of the City's investment portfolio may be invested in federal agency securities or 100% of the investment portfolio in securities issued by any one federal agency. The proposed increase from 40% to 60% in the diversification limitation for securities held in any one federal agency is well within the State law limitation of up to 100% of the total investment portfolio. All federal agency securities are triple-A rated and have the implicit full faith and credit backing of the United States Treasury. These securities are generally considered second only to United States Treasury securities in credit quality.

Next, the Segregation of Responsibilities of Treasury Functions schedule was revised to add a compliance testing function to be performed by the Assistant Finance Director. Currently, although compliance testing is performed, the testing practice is not spelled out within the schedule in the investment policy. This change will formalize the compliance testing procedures in the schedule attached to the adopted investment policy and better delineate responsibilities for the treasury functions. It will also ensure that the investment portfolio is more frequently reviewed for compliance with the investment policy and State law as well as delineate functional responsibilities of affected staff.

In addition to the aforementioned changes, miscellaneous or other "housekeeping" changes such as "date" changes were made to the various sections of the Investment Policy as noted.

Whenever revisions to the Investment Policy are considered, the proposed revisions are reviewed and discussed with the Investment Oversight Committee at its meetings throughout the fiscal year. The changes discussed herein have been submitted to the Investment Oversight Committee for review and the proposed changes referenced above are recommended to City Council for adoption.

## CONCLUSION

The attached Investment Policy has been revised to include the proposed changes referenced above. It is recommended that City Council adopt the attached Resolution Number ---- approving the attached Investment Policy for the 2006-07 fiscal year.

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MARC R. PUCKETT  
Director of Finance/City Treasurer

### Attachments:

- (1) [2006-07 Red Lined Statement of Investment Policy](#)
- (2) [2006-07 Proposed Statement of Investment Policy](#)  
Investment Guidelines and Strategy  
Investment Procedures: Internal Controls - Guidelines  
Cash Controls: Independent Auditors' Procedure  
Segregation of Treasury Responsibilities
- (3) [Glossary](#)
- (4) [Resolution](#)