

Livermore Area Recreation and Park District

Staff Report

TO: Chair Boswell and Finance Committee

FROM: Mathew Fuzie, General Manager

PREPARED BY: Jeffrey Schneider, Business Services Manager

DATE: December 19, 2022

SUBJECT: Discussion – Investment Policy Outline / Considerations

What follows is a proposed Investment Policy. Our idea is to update this outline based upon today's discussion and then present to the Board for its approval in January.

Opportunities/Purpose:

1. The District has no investment policy at present. Prior to October, 2022, cash was housed in accounts at the County of Alameda and with US Bank. The return on these accounts is negligible in the case of the County and zero on funds with US Bank's operating account.
2. While the opportunity cost of earning such returns (< 1% per annum) has been modest in recent years, in any financial market situation it is important to effectively manage the District's funds, and in today's financial environment the opportunity cost of ignoring investment opportunities is now magnified.
3. As of October, 2022, the District began to invest its cash reserves in stable, relatively liquid assets that are consistent with this proposed policy and related California Government Codes: we began by placing \$3.5 million in three-month CDs through the US Bank Money Center (USBMC) at 3.4%, which will result in \$30.6k in interest upon maturity in January, 2023. We also placed \$1.0 million in California Asset Management Program (CAMP), administrated by PFM Asset Management LLC, an investment advisor registered with the Securities Exchange Commission (SEC), though we have since transferred funds from CAMP to the US Bank operating account as our cash balances naturally drop in November and early December. As of this writing, interest earned through CAMP amounts to \$6,707 (a little more than a 2% annualized return).

LIVERMORE AREA RECREATION AND PARK DISTRICT ADMINISTRATIVE POLICY MANUAL

POLICY TITLE: Investment / Treasury Policy
POLICY NUMBER: FIN-22-0001

Objectives:

1. **Preservation of Capital:** Preservation of capital is paramount: the District will invest within the guidelines established by this policy, seeking to minimize risk while not unduly impacting returns on its investments.
2. **Liquidity:** To provide adequate liquidity to support the District's day to day operations and Capital Investment Program (CIP) plans.
3. **Return on Investment:** to generate the maximum return possible while operating within the constraints established by this Policy.
4. **Compliance:** Ensure compliance with laws governing the investment of public monies under the control of the General Manager (GM), within guidelines established by the Board of Directors.

Delegation of Authority / Responsibilities:

1. No investment or change to the Portfolio will be made without the approval of the General Manager (GM), except when the need arises to ensure the operational needs of the District can be met, in which case the Business Services Manager (BSM) and Finance Officer (FO) will move funds from a liquid investment to the District's operating account.
2. Portfolio Management:
 - a. The GM will be responsible for changes to the District's Portfolio.
 - b. The BSM will be responsible for analyses/proposals made to the GM to effect changes to the District's Portfolio.
 - c. The BSM and Finance Officer (FO) shall establish and maintain procedures and reporting requirements related to the District's investment portfolio.
 - d. The FO will be responsible for investment transactions and financial reporting related to the District's investments.

Ethics and Conflict of Interest:

1. The GM, BSM, FO, and other staff 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.

2. The GM, BSM, FO, and other staff involved in the investment process shall disclose any personal financial/investment positions that could be related to the performance of the investment portfolio and shall not undertake personal investment transactions through the same institution with whom business is conducted on behalf of the District.
3. On an annual basis, the General Manager, BSM, and FO complete California Form 700 from the Fair Political Practices Commission (“Statement of Economic Interests”).

Internal Control:

1. The BSM shall ensure that all investment transactions comply with the District’s Investment Policy and, together with the FO will establish internal controls that are designed to prevent losses due to fraud, negligence or third-party misrepresentation. These controls shall be designed to avoid collusion, ensure separation of duties and administrative controls, maintain separation of transaction authority from accounting and record keeping, delegate authority clearly, ensure management approval and review of investment transactions, document investment transactions and strategies, and monitor investment performance results.
 - a. The BSM shall establish a process of independent review by an external audit firm. As a component of the annual financial audit process, the external auditor shall review the management of the District’s investment program in terms of compliance with this Policy.

Prudent Investor Standard – California Government Code 53600.3

1. The District’s investment practices shall be in compliance with California Government Code Section 53600.3, which states, “When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.”

Authorized Investments – LARPD-specific:

1. While Table A, produced annually by the California Debt and Investment Advisory Committee (CDIAC) specifies limitations on investments that public agencies such as ours can execute, the District elects to limit its investment activities to the following:
 - a. US Bank Money Center (USBMC). Through the USBMC, the District has access to investment vehicles including Certificates of Deposit (CDs), Money Market Funds, and US Treasury Bills.

- b. California Asset Management Program (CAMP), administered by PFM Asset Management LLC, an investment advisor registered with the Securities Exchange Commission (SEC).
 - c. Local Agency Investment Fund (LAIF), which is administered by the State of California Treasurer's office and is a part of the State's Pooled Money Investment Account (PMIA).
 - d. Cal TRUST, a joint powers authority and public agency established under the provisions of Title 1, Division 7, Chapter 5 of the California Government Code (the Joint Exercise of Powers Act). CalTRUST is a local government investment pool open only to California public agencies whose assets are managed by the investment firm BlackRock.
2. Government Code sections 16429.1, 53600 and 53638 outline authorized investments available to the District, and staff shall also consider specific guidance of this Policy. Table A includes the complete list of authorized investments available to the District per applicable State of California Code. No investments that are not explicitly referenced in the LARPD-specific Authorized Investment list will be allowed. The District will determine which of the available investments will be utilized during its annual review of this Policy.
 3. From time to time, the District may revisit the list of Authorized Investments given changes to relevant Government Code and/or changes to the economic environment and financial state / operational requirements of the District.

Reserve Policy Considerations and Other Cash Balance Needs:

1. The District's Reserve Policy identifies specific fund amounts by type of reserve, examples being Restricted Funds, Committed (debt service and deferred maintenance), and Assigned Reserves (budget contingency, program funds). At the completion of each year's financial audit, the Board may approve a change to specific Reserve Fund amounts. It is the District's intent to use interest income earned on its treasury activities to support on-going operating and capital needs; reserve fund balances shall remain at Board-approved levels and will not be adjusted for interest earned on those balances.
2. The District's cash balances will, by definition, exceed the total of Reserve Funds in order to accommodate on-going operating requirements, and the cash available to invest beyond the Reserve requirements will vary throughout the year in relation to tax income timing and operating results. Thus, investments associated with extra-Reserve cash balances will need to be relatively liquid.
3. Other Considerations for extra-reserve cash balances:
 - a. The County periodically pulls cash from the District's account in relation to property and parcel tax adjustments. A minimum amount must be maintained in order to accommodate these activities; the BSM and Finance Officer will monitor these activities of the County and recommend adjustments to the amount to be held with the County as needed.

- b. Cash required for near-term operations (1 to 2 months) should be held in the District's operating account. The BSM and Finance Officer will monitor these requirements and will effect adjustments to the amount to be held in the operating checking account as needed.

Performance Standards:

1. The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary, economic, or weather cycles, commensurate with the investment risk constraints and cash flow needs that are outlined in this policy.

Reporting:

1. Periodic Reporting: The BSM shall prepare and submit a quarterly investment report of funds directly controlled and managed by the District, including a detailed listing of all investment transactions opened and closed during a reporting period or, if none, a statement to that effect. The report shall be submitted quarterly to the GM and provided to the Board of Directors upon their request.
2. Each investment report shall be submitted within 45 days following the end of the period covered by the report and must also include certification by the BSM that investment actions executed since the last report are in compliance with the Investment Policy or state areas of non-compliance, and that the District will meet its expenditure obligations for the next six months or state why sufficient money shall, or may, not be available as required by law.

Investment Policy Adoption / Maintenance:

1. The District's Investment Policy shall be adopted by the Board of Directors. The policy shall be reviewed annually, in conjunction with the annual budget process, to ensure its consistency with the overall objectives of preservation of principal, compliance, liquidity, and return on investment, and its relevance to current law, financial and economic trends, and to meet the needs of the District. Any modifications made hereto must be approved by the Board of Directors.

TABLE A
Authorized Investments per California Debt and Investment Advisory Commission (CDIAC)

ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE (AS OF JANUARY 1, 2022)^A
 APPLICABLE TO ALL LOCAL AGENCIES^B

See "Table of Notes for Table A" on the next page for footnotes related to this figure.

INVESTMENT TYPE	MAXIMUM MATURITY ^C	MAXIMUM SPECIFIED % OF PORTFOLIO ^D	MINIMUM QUALITY REQUIREMENTS	GOV'T CODE SECTIONS
Local Agency Bonds	5 years	None	None	53601(a)
U.S. Treasury Obligations	5 years	None	None	53601(b)
State Obligations— CA And Others	5 years	None	None	53601(c) 53601(d)
CA Local Agency Obligations	5 years	None	None	53601(e)
U.S Agency Obligations	5 years	None	None	53601(f)
Bankers' Acceptances	180 days	40% ^E	None	53601(g)
Commercial Paper—Non-Pooled Funds ^F (under \$100,000,000 of investments)	270 days or less	25% of the agency's money ^G	Highest letter and number rating by an NRSRO ^H	53601(h)(2)(c)
Commercial Paper—Non-Pooled Funds (min. \$100,000,000 of investments)	270 days or less	40% of the agency's money ^G	Highest letter and number rating by an NRSRO ^H	53601(h)(2)(c)
Commercial Paper— Pooled Funds ^I	270 days or less	40% of the agency's money ^G	Highest letter and number rating by an NRSRO ^H	53635(a)(1)
Negotiable Certificates of Deposit	5 years	30% ^J	None	53601(i)
Non-negotiable Certificates of Deposit	5 years	None	None	53630 et seq.
Placement Service Deposits	5 years	50% ^K	None	53601.8 and 53635.8
Placement Service Certificates of Deposit	5 years	50% ^K	None	53601.8 and 53635.8
Repurchase Agreements	1 year	None	None	53601(j)
Reverse Repurchase Agreements and Securities Lending Agreements	92 days ^L	20% of the base value of the portfolio	None ^M	53601(j)
Medium-Term Notes ^N	5 years or less	30%	"A" rating category or its equivalent or better	53601(k)
Mutual Funds And Money Market Mutual Funds	N/A	20%	Multiple ^{P,Q}	53601(l) and 53601.6(b)
Collateralized Bank Deposits ^R	5 years	None	None	53630 et seq. and 53601(n)
Mortgage Pass-Through and Asset-Backed Securities	5 years or less	20%	"AA" rating category or its equivalent or better	53601(o)
County Pooled Investment Funds	N/A	None	None	27133
Joint Powers Authority Pool	N/A	None	Multiple ^S	53601(p)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Voluntary Investment Program Fund ^T	N/A	None	None	16340
Supranational Obligations ^U	5 years or less	30%	"AA" rating category or its equivalent or better	53601(q)
Public Bank Obligations	5 years	None	None	53601(r), 53635(c) and 57603

TABLE A – Notes from CDIAC

A Sources: Sections 16340, 16429.1, 27133, 53601, 53601.6, 53601.8, 53630 et seq., 53635, 53635.8, and 57603.

B Municipal Utilities Districts have the authority under the Public Utilities Code Section 12871 to invest in certain securities not addressed here.

C Section 53601 provides that the maximum term of any investment authorized under this section, unless otherwise stated, is five years. However, the legislative body may grant express authority to make investments either specifically or as a part of an investment program approved by the legislative body that exceeds this five year remaining maturity limit. Such approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.

D Percentages apply to all portfolio investments regardless of source of funds. For instance, cash from a reverse repurchase agreement would be subject to the restrictions.

E No more than 30 percent of the agency's money may be in bankers' acceptances of any one commercial bank.

F Includes agencies defined as a city, a district, or other local agency that do not pool money in deposits or investment with other local agencies, other than local agencies that have the same governing body.

G Local agencies, other than counties or a city and county, may purchase no more than 10 per-cent of the outstanding commercial paper and medium-term notes of any single issuer.

H Issuing corporation must be organized and operating within the U.S., have assets in excess of \$500 million, and debt other than commercial paper must be in a rating category of "A" or its equivalent or higher by a nationally recognized statistical rating organization, or the issuing corporation must be organized within the U.S. as a special purpose corporation, trust, or LLC, have program wide credit enhancements, and have commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical rating agency.

I Includes agencies defined as a county, a city and county, or other local agency that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body. Local agencies that pool exclusively with other local agencies that have the same governing body must adhere to the limits set forth in Section 53601(h)(2)(C).

J No more than 30 percent of the agency's money may be in negotiable certificates of deposit that are authorized under Section 53601(i).

K Effective January 1, 2020, no more than 50 percent of the agency's money may be invested in deposits, including certificates of deposit, through a placement service as authorized under 53601.8 (excludes negotiable certificates of deposit authorized under Section 53601(i)). On January 1, 2026, the maximum percentage of the portfolio reverts back to 30 percent. Investments made pursuant to 53635.8 remain subject to a maximum of 30 percent of the portfolio.

TABLE A – Notes from CDIAC (continued)

- L Reverse repurchase agreements or securities lending agreements may exceed the 92-day term if the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity dates of the same security.
- M Reverse repurchase agreements must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has a significant relationship with the local agency. The local agency must have held the securities used for the agreements for at least 30 days.
- N “Medium-term notes” are defined in Section 53601 as “all corporate and depository institution debt securities with a maximum remaining maturity of five 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.”
- O No more than 10 percent invested in any one mutual fund. This limitation does not apply to money market mutual funds.
- P A mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Sections 53601 and 53635.
- Q A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years' experience investing in money market instruments with assets under management in excess of \$500 million.
- R Investments in notes, bonds, or other obligations under Section 53601(n) require that collateral be placed into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, among other specific collateral requirements.
- S A joint powers authority pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Section 53601, subdivisions (a) to (o).
- T Local entities can deposit between \$200 million and \$10 billion into the Voluntary Investment Program Fund, upon approval by their governing bodies. Deposits in the fund will be invested in the Pooled Money Investment Account.
- U Only those obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less.