

**CITY OF LAKEPORT, CITY OF LAKEPORT MUNICIPAL
SEWER DISTRICT AND LAKEPORT MUNICIPAL FINANCING
AGENCY**

INVESTMENT POLICY

POLICY

It is the policy of the City of Lakeport, the City of Lakeport Municipal Sewer District (CMLSD) and the Lakeport Municipal Financing Agency (LMFA) to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City of Lakeport and conforming to all state and local statutes governing the investment of public funds.

The City of Lakeport shall strive to maintain the level of investment of all idle funds as near 100 percent as possible, through daily and projected cash flow determinations. Idle cash management and investment transactions are the responsibility of the City Finance Director or his/her designee.

SCOPE

The City of Lakeport pools all cash for investment purposes, and this policy is applicable to all current City funds or any new funds created. These funds include: The General Fund, capital projects funds, special revenue funds, enterprise funds, fiduciary funds, and Successor Agency funds. Exceptions to pooling of investments are bond fund reserves

- Bond fund reserves have conditions imposed by bond indentures which require a segregation of funds. Bond fund reserves accrue investment earnings directly to the reserved funds as required by the bond prospectus. For bond fund reserves, the investment policy is stipulated by the bond indenture.

PRUDENCE

Under all circumstances, the “prudent investor rule” shall apply. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, direction, 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 investment earnings to be derived.

The Finance Director and/or his/her designee, and other individuals assigned to manage the investment portfolio, acting within the intent and scope of the investment policy and other written procedures 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 manner and appropriate action is taken to control adverse developments.

OBJECTIVES

1. Safety of Principal

Safety of principal is the foremost objective of the City’s investment policy. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker-dealer default, or erosion of market value. The City shall seek to preserve principal by mitigating credit risk and market risk.

EXHIBIT A

Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in high investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer would not unduly harm the City's cash flow.

Market risk, defined as market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by: (1) limiting the average maturity of the City's investment portfolio to three years, (2) limiting the maximum maturity of any one security to five years, and (3) structuring the portfolio based on historic and current cash flow analysis. This policy eliminates the need to sell securities prior to maturity and avoids the purchase of securities for the sole purpose of short-term speculation. It is recognized, however, that in a diversified investment portfolio, occasional measured losses are inevitable and must be considered within the context of the overall investment return and current economic circumstances.

2. Liquidity

The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements reasonably anticipated. Historical and current cash flow needs are analyzed continually.

3. Return on Investment

The City's investment portfolio shall be designed to attain a market-average rate of return through economic cycles.

4. Social and Political Considerations

In addition, the City recognizes that it has an equal obligation to be aware of the social and political impacts of its investments, and subsequently to act responsibly in making its financial decisions.

The City shall not knowingly make any investments in any institution, company, corporation, subsidiary or affiliate that practices or supports directly or indirectly through its action's discrimination on the basis of race, religion, color, creed, national or ethnic origin, age, sex, sexual preference or physical disability.

The City shall strive to make investments that benefit the local area and are consistent with the City's plans and policies. Priority shall be given to investments that promote community economic development, for example, by doing business with local banks provided that the criteria for safety, liquidity and yield are met.

DELEGATION OF AUTHORITY

The City Council, by Resolution, assigned the responsibility of investing idle funds to the City Manager. The Finance Director and/or his/her designee shall have day to day responsibility of the investment program and shall establish procedures for routine operations consistent with this investment policy. The City Manager or designee shall review and render quarterly reports to the City Council, as set forth by the *California Government Code*.

ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program, or that impairs their ability to make impartial investment decisions. Employees and investment officials shall disclose any material financial interest that could be related to the performance of the City's investment portfolio.

EXHIBIT A

SAFEKEEPING OF SECURITIES

The City shall endeavor to ensure safety of principal invested to the maximum extent possible. This may include procuring an insurance policy for accounts maintained by broker/dealers, such as those offered by the Security Investor Protection Corporation (SIPC).

INTERNAL CONTROL

The Finance Director shall establish procedures that separate the internal responsibility for management and accounting of the investment portfolio. An independent analysis by an external auditor shall be conducted annually to review internal control, account activity, and compliance with policies and procedures.

An investment committee consisting of no less than the City Manager, the Finance Director, and two Council Members, shall meet regularly to review both the investment policy of the City of Lakeport, CMLSD and the LMFA and/or investment strategies and practices to determine appropriate improvements. Two additional committee members may be added at the recommendation of the City Manager and approval by Council. A staff report by the Finance Director consisting of the committee's review, comments, and/or recommendations will be presented to the full Council annually, no later than the first regularly scheduled Council meeting in October.

REPORTING

Under the provisions of Section 53646 of the *California Government Code*, the Finance Director shall render a quarterly report to the City Council showing the types of investments, institutions, rates of interest, maturity dates, amounts of deposit, and current market values of securities with maturity in excess of twelve months. The market values of all investments shall be reported quarterly.

DIVERSIFICATION

The purpose of diversifying is to reduce the overall portfolio risk while attaining an average market rate of return. Diversification needs to be conceptualized in terms of maturity, instrument types and issuer. The portfolio shall consist of a mix of various types of securities, issuers, and maturity dates. Diversification of investment funds among a variety of securities offers an independent return.

COLLATERALIZATION

The *California Government Code* requires California banks and savings and loans to secure the City's deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of the City's deposits. California law also allows financial institutions to secure a city's deposits by pledging first trust deed mortgage notes at least equal to 150% of the City deposits. Collateral requirements may be waived for deposits which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

AUTHORIZED INVESTMENTS

The City is governed by the *California Government Code*, Sections 53600 *et. seq.* Within the context of the *California Government Code*, the following investments are authorized:

EXHIBIT A

1. Government Agency Issues

As authorized in *Government Code* § 53601(a) through (f), this category includes a wide variety of government securities such as: Local government bonds or other indebtedness; U.S. Treasury notes or other indebtedness secured by the full faith and credit of the Federal government; State bonds or other indebtedness; and other Federal agency securities including those offered by the Small Business Administration, Fannie Mae, Freddie Mac, etc... There is no percentage limitation of the portfolio which can be invested in this category, although a five-year maturity limitation is applicable.

2. Bankers Acceptance

As authorized in *Government Code* §53601(g), up to 40 percent of the City's portfolio may be invested in bankers' acceptances (BAs) that are eligible for purchase by the Federal Reserve System, although no more than 30% of the portfolio may be invested in BAs with any one commercial bank. Additionally, the maturity period cannot exceed 270 days.

3. Commercial Paper

As authorized in *Government Code* §53601(h), up to 15 percent of the City's portfolio may be invested in "prime" quality commercial paper (CP) as rated by Moody's or Standard & Poor's. The amount may be increased to 30 percent if the dollar weighted average maturity does not exceed 31 days. Issuing corporations must be organized and operating in the U.S., have \$500 million total assets, and have an "A" or better rating for other debt. The City cannot purchase more than 10 percent of the outstanding CP of an issuing corporation, with maturities not to exceed 180 days.

4. Negotiable Certificates of Deposit (NCD's)

As authorized in *Government Code* §53601(i), up to 30 percent of the City's portfolio may be invested in negotiable certificates of deposit (NCDs) issued by commercial banks, Federal or State chartered savings and loans and State licensed branches of a foreign bank. A maturity limitation of five years is applicable.

5. Repurchase and Reverse Repurchase Agreements

As authorized in *Government Code* Repurchase Agreements: §53601(j), the City may invest in repurchase agreements (Repos) or reverse repurchase agreements, although investment in reverse Repos requires the prior approval of the City Council except when investment is part of a City designated investment pool. Repos are generally used for short-term investments varying from one day to two weeks, with a maximum maturity limitation of 30 days.

6. Medium-Term Notes

As authorized in *Government Code* §53601(k), up to 30 percent of the City's portfolio may be invested in medium-term notes issued by corporations organized and operating within the United States and with a maximum maturity of five years. Medium-term notes shall be rated "A" or better by a recognized rating service. A maturity limitation of five years is applicable.

7. Mutual Funds

As authorized in *Government Code* §53601(l), up to 20 percent of the City's portfolio may be invested in shares issued by diversified management companies, as defined in §23701(m) of the *Revenue and Taxation Code*, which invest in securities complying with this article. Diversified management companies must either attain the highest rating by two of the three largest nationally recognized rating agencies, or have an investment advisor registered with the SEC with not less than five years' experience in local agency investments and with assets under management in excess of \$500 million.

EXHIBIT A

8. Certificates of Deposit (CDs)

As authorized in *Government Code* §53635.8, up to 30 percent of the City's portfolio may be invested in certificates of deposit issued by a nationally or state-chartered bank or state or federal savings institution. A maturity limitation of five years is applicable.

9. Local Agency Investment Fund (LAIF)

As authorized by *Government Code* §16429.1, 90 percent of the City's portfolio may be invested in the Local Agency Investment Fund, which is managed by the California State Treasurer's Office.

10. Passbook Savings Account

As authorized by *Government Code* §53601, Demand Deposits, the City may place any amount of funds into a passbook savings account.

POLICY REVIEW

The City's investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives and preservation of principal, liquidity and yield, and its relevance to current law and financial and economic trends. Any State of California legislative action that further restricts allowable maturities or percentage allocations will be incorporated into the City's investment policy and supersede any and all previous applicable language. Amendments to the policy shall be forwarded to the City Council for approval.

INVESTMENT POLICY ADOPTION

The City's Investment Policy shall be adopted by resolution by the City Council. Any modifications made thereto must be approved by the City Council.

Approved by the City Council of the City of Lakeport and the Board of Directors of the CMLSD and the LMFA joint meeting thereof, held on the November 20, 2018, by Resolution No. 2692 (2018).