STAFF REPORT

MEETING DATE:	**5/8/13**
SUBJECT:	**Approve Investment of Intergovernmental Loan Fund**
AGENDA ITEM:	**5-6**
STAFF CONTACT:	**Dave Wallace**

STAFF RECOMMENDATION:

It is recommended that the board of directors approve investing the agency's $1 million intergovernmental loan fund with Five Star Bank.

DISCUSSION:

On February 26, 2013, the board of directors established a $1.0 million Intergovernmental Loan Fund to address delays or irregularities in payments from state and federal fund sources. The Intergovernmental Loan Fund needs to be held in an investment that allows for periodic deposits and withdrawals at short notice. The agency's investing policies and procedures are attached and require the board of directors to approve all investments.

Under the direction of the fiscal committee and in consultation with the treasurer at the City of Redding, staff reviewed the Local Agency Investment Fund (LAIF) rate-of-return and contacted two local banks for comparison. The Public Funds Money Market Deposit Account at Five Star Bank in Redding would generate the highest rate of return (currently .47%) for the agency while providing the necessary liquidity and protection. The investment is 100% insured and conforms to the agency's attached policies and procedures.

ALTERNATIVES:

The board of directors may approve with specific modifications or direct staff and the fiscal committee to identify other investments options.

OTHER AGENCY INVOLVEMENT:

The Technical Advisory Committee (TAC) concurs with the staff recommendation.

FINANCING:

The Intergovernmental Loan Fund is funded by the return of Transportation Development Act overpayments made to RABA between FY 2007/08 and 2011/12. The recommended investment would earn approximately $4,700 interest per year that may in turn be used for any activity approved by the board of directors.

Daniel S. Little, AICP, Executive Director

Attachment: Financial and Accounting Policies and Procedures #404-Investments (adopted February 26, 2013)

400. Assets, Liabilities and Fund Balance (Net Assets)

404. Investments

Background: Investing public funds is usually a core responsibility of local government finance professionals and can be one of the most complicated responsibilities.

The main objectives of effective cash management and investing public funds is, in this specific order, to ensure the safety of principal, provide for sufficient liquidity to pay obligations when due and earn a reasonable rate of return on invested funds,.

<u>Risk</u>

There are different types of risks associated with cash management and investing that must be understood and managed to ensure the safety of principal.

• Credit risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations. This risk can be managed by purchasing only high-rated securities and monitoring the credit worthiness of issuers.

• Concentration of credit risk – The risk of loss attributed to the extent of investments held from a single issuer. This risk can be managed by limiting the amount of investments held from any single issuer (diversification).

• Custodial credit risk – The risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

• Interest rate risk – The risk that changes in interest rates will adversely affect the fair value of an investment. When rates rise, security values fall and vice versa. This risk can be managed by matching investment maturities with accepted disbursements, purchasing shorter-term securities, and staggering maturity dates throughout the year (laddering the portfolio).

• Liquidity risk – The risk that securities must be sold before anticipated to provide liquidity, which may result in a loss of principal. See interest rate risk discussion above.

404.1. Investment Reports- The agency shall prepare quarterly reporting of investment results and portfolio composition to the audit committee containing the following:

- Types of investments held
- Average rate of return for period reporting and year to date
- Average maturity of portfolio
- Compliance with investment policy provisions

• Changes in investment strategy

• Comparison of portfolio return with benchmarks

• Interest rate environment changes

404.2. Brokers and dealers are usually selected by an informal selection process. Criteria used may include; office proximity, services provided, references from other governments, and competitiveness of bids. If brokers or dealers become noncompetitive, other providers can be substituted relatively easily. Retaining three to five broker/dealers is usually sufficient to ensure adequate competition, depending on the portfolio size, frequency of purchases and services required.

404.3. Purchasing Investments- all securities should be purchased using the "payment vs. delivery" method, using an independent third party. This method ensures that securities purchased are delivered before payment is made.

404.4. Where possible, obtain more than one quote on securities purchased to ensure the highest rate of return has been obtained. Competition will usually enhance the rate of return achieved. Similar securities can be substituted if maturity dates and credit risk is comparable. For example, federal instrumentalities (Freddie Mac, Fannie Mae, etc.) are usually comparable in credit risk. Requesting quotations on specific security types and specific maturity dates (or narrow date ranges) is a common practice to facilitate comparison of competitive offers.

404.5. The agency has a fiduciary responsibility to protect the assets of the agency and invest funds with reasonable care. The agency may invest in a broad array of investments and allowed under the California Government Code. The agency will invest as much as possible, all idle funds.

404.6. The accountant is responsible for cash management.

404.7. The audit committee shall review each investment to ensure that the investment follows the policies of the agency.

404.8. The audit committee of the agency shall meet quarterly to review investments and annually to review the agency's investment policies.

404.9. The agency will invest in only investments permitted under Government Code Sections 53600 et seq.

404.10. The criteria for selecting investments will be:

1) Safety. The risk associated with the loss of principal or interest. This loss may be a result of the institution or market fluctuations. The agency will not invest in any securities which present a risk to principal.

2) Liquidity. The more liquid a security, the lower the yield. Care and consideration will be given investing in securities that can be converted to cash prior to maturity.

3) Yield. Based on an annual rate of return, yield is the lowest criteria.

404.11. The investment restrictions are:

1) No securities below an A-1 Standard & Poor's credit rating may be purchased; and

2) No leveraged investments.

404.12. Collateral requirements shall meet the requirements of Government Code Section 53651.

404.13. The agency will diversify the investment portfolio as much as possible.

404.14. All securities will be held in the name of the agency.

404.15. Transfers of funds means:

1) Only the chair or vice-chair of the board, or executive director as approved by the board may move funds between the agency's checking, savings or line of credit accounts. The executive director may move funds if the chair or vice-chair are unavailable; and

2) Only advanced funds on government grants in the care, custody or control of the agency are the funds transferred into and out of the agency's savings account. The savings account shall have no minimum or maximum time limit in which funds must remain in the account.

   a) The intent of the board is to earn interest on advanced government funds, if appropriate, and use the interest generated to increase the work implemented under those government grants.

   b) Funds the agency receives from non-government sources may also be transferred to the savings account, if appropriate, to be used as specified by the board.