

CORTE MADERA TOWN COUNCIL
STAFF REPORT

Report Date: January 22, 2010
Meeting Date: February 2, 2010

TO: TOWN MANAGER, MAYOR AND TOWN COUNCIL
FROM: GEORGE T. WARMAN, JR., DIRECTOR OF ADMINISTRATIVE SERVICES/
TOWN & DISTRICT TREASURER
SUBJECT: ANNUAL STATEMENT OF INVESTMENT POLICY

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PURPOSE:

To submit the Annual Statement of Investment Policy.

RECOMMENDATION:

Staff recommends that the Town Council accept the Annual Statement of Investment Policy.

OPTIONS:

Effective January 1, 1996, the filing of the Annual Statement of Investment Policy became a requirement of State Law. In FY 2003-04, the State Legislature suspended the requirement to avoid Mandated Cost Reimbursements to local governments. However, sound practice is to continue the Annual filing, which has been done every year since 1985.

TOWN MANAGER'S RECOMMENDATION:

Support Staff's recommendation.

GENERAL PLAN:

Not applicable.

ENVIRONMENTAL IMPACT:

Not applicable.

FISCAL IMPACT:

During Calendar Year 2009, interest earnings totaled \$58,685.69. This number equals the sum of the twelve monthly investment reports (Jan 09 – Dec 09).

Beginning in FY 2005-06, low cash balances have resumed being the normal condition as they were in the 1970's and into the mid-1980's. This appears to be a long term situation which results in low interest earnings as compared to the 20 year period between approximately 1985 to 2005.

To further lower interest earnings, interest rates on public funds have dropped to the lowest I have seen in 36 years. Below is listed the rates of return in recent years on the Town's cash investments.

<u>Calendar Year</u>	<u>Rate of Return</u>
2000	6.38%
2001	5.81%
2002	4.83%
2003	3.82%
2004	3.73%
2005	3.70%
2006	4.71%
2007	5.18%
2008	3.20%
2009	1.31%

Because of low cash balances during the September 1st to December 15th period and the uncertainty of renewing the annual TRANs each September, I am not able to make investments for the longer periods, with higher interest rates, that was formerly the norm. At this moment, rates for one to five year FDIC insured Certificates of Deposit range from 0.040% for one year to 2.80% for five years.

BACKGROUND:

Attachment #1 is the Annual Statement of Investment Policy. This statement follows the format of the annual statements issued since Calendar Year 1985.

DISCUSSION & ANALYSIS:

Unlike pension funds, which have a long-term focus and place heavy reliance on equities (common stock), the Town/District funds have a relatively short-term focus and are therefore invested in cash instruments. Prior to January 1, 1989, I invested a small portion of our cash in U.S. Government Agency securities having terms of 5 to no more than 10 years to achieve a higher yield. Effective January 1, 1989, State Law was changed to require local agencies to not invest in terms of more than 5 years to maturity without specific authorization by the legislative body. The intent of the law was to emphasize the short-term focus of local agency cash and to insure both safety and liquidity. I have not requested authorization from the Council to return to my past practice of having a small portion of the portfolio in medium term Federal Agencies.

During Calendar Year 2009, the rate of return was 1.31% (1.30735064178% to be exact), and dollars in investment ranged from a low of \$90,000 (between September 14 to September 22) to a high of \$7,439,732 (between April 15 to April 17), with the average amount being \$4,762,500. Virtually all of this money is earmarked, or was earmarked and spent, for some special purpose or capital project. All investment choices are made in accordance with State Law and the Town/District Investment Policy. Within those limitations, the criteria for selecting investments and the order of priority are as follows:

1. Safety. This refers to the risk or the potential loss of principal, interest or a combination of these.
2. Liquidity. This refers to the ability to "cash in" at any time with a minimal possibility of losing some portion of principal or interest earned on the principal.
3. Yield. This refers to the rate of return and is the least important of the criteria. Safe, liquid investments do not enjoy the yields of investments not having those characteristics.

These objectives are in accordance with State Law that specifies the primary objective is the safety of the principal funds in investment. The secondary objective is meeting the liquidity needs of the government. The third objective, and the least important, is to achieve a return on the money invested.

CONCLUSION:

Given the small size of the portfolio (major investment transactions are typically done in \$1,000,000 blocks), the relatively short-term investment focus (less than 5 years), and the criteria of selecting those investments that are legally available to the Town/District, investments are in very safe and highly liquid instruments. As was the case during Calendar Year 2009, in Calendar Year 2010, most, if not all of the money will be in the State of California Local Agency Investment Fund. The Local Agency Investment Fund is administered by the State of California Treasurer's Office.

George T. Warman, Jr.
Director of Administrative Services/
Town & District Treasurer

ATTACHMENTS:

1. Annual Statement of Investment Policy, Calendar Year 2010

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ATTACHMENT 1

ANNUAL STATEMENT OF
INVESTMENT POLICY,
CALENDAR YEAR 2010

TOWN OF CORTE MADERA
SANITARY DISTRICT NO. 2 OF MARIN COUNTY,
A SUBSIDIARY DISTRICT TO THE TOWN OF CORTE MADERA
ANNUAL STATEMENT OF INVESTMENT POLICY
CALENDAR YEAR 2010
JANUARY 1, 2010

Purpose

This Statement is intended to provide guidelines for the prudent investment of the Town/District's temporary idle cash, and outline the policies for maximizing the efficiency of the Town/District's cash management system. The ultimate goal is to enhance the economic status of the Town/District while protecting their pooled cash.

Objective

The Town/District's cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the Town/District to invest funds to the fullest extent possible. The Town/District attempts to obtain the highest yield obtainable as long as investments meet the criteria established for safety and liquidity.

Policy

The Town of Corte Madera and Sanitary District No. 2 of Marin County, a Subsidiary District to the Town of Corte Madera, operate their temporary pooled idle cash investments under the prudent person rule (Civil Code Section 2261, et seq)*. This affords the Town/District a broad spectrum of investment opportunities as long as the investment is deemed prudent and is allowable under current legislation of the State of California (Government Code Section 53600 et seq).

*The Prudent Person Rule states, in essence, that "in investing . . . property for the benefit of another, a trustee shall exercise the judgement and care, under the circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs . . ."

Pursuant to California Government Code Sections 53601 & 53635 (a-n), investments may be made in the following media:

<u>Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum % of Portfolio</u>	<u>Quality Requirements</u>
Local Agency Bonds	5 years	None	None
US Treasury Obligations	5 years	None	None
State of California Obligations	5 years	None	None
CA Local Agency Obligations	5 years	None	None
US Agencies	5 years	None	None
Bankers' Acceptances	180 days	40%	None
Commercial Paper	270 days	25%	A1/P1/F-1 Rating
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium-Term Notes (Corporate Debt Investment Grade)	5 years	30%	A rating
Mutual Funds	N/A	20%	Multiple
Money Market Mutual Funds	N/A	20%	Multiple
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	AA rating
Time Deposits	5 years	None	None
Local Agency Investment Funds (LAIF) of California State Treasurer's Office (State Pool)	N/A	None	None

Criteria for selecting investments and the order of priority are:

1. **Safety**. The safety and risk associated with an investment refers to the potential loss of principal, interest or a combination of these amounts. The Town/District only operate in those investments that are considered very safe.
2. **Liquidity**. This refers to the ability to "cash in" at any moment in time with a minimal chance of losing some portion of principal or interest. Liquidity is an important investment quality especially when the need for unexpected funds occurs occasionally.
3. **Yield**. Yield is the potential dollar earnings an investment can provide, and sometimes is described as the rate of return.

Safekeeping. Securities purchased from brokers/dealers shall be held in third party safekeeping by

the trust department of the Town/District's bank or other designated third party trust, in the Town/District's name and control, whenever possible.

Investment Objective. The cash management system of the Town of Corte Madera and Sanitary District No. 2 of Marin County, a Subsidiary District to the Town of Corte Madera, is designed to accurately monitor and forecast expenditures and revenues, thus ensuring the investment of monies to the fullest extent possible. The system also attempts to obtain highest interest yields possible as long as investments meet the criteria required for safety and liquidity.

The Town of Corte Madera and Sanitary District No. 2 of Marin County, a Subsidiary District to the Town of Corte Madera, operate their pooled idle cash investments under the Prudent Person Rule (copy attached). This affords a broad spectrum of investment opportunities so long as the investment is deemed prudent and is permissible under currently effective legislation of the State of California and other imposed legal restrictions.

The Town/District strives to maintain the level of investment of all funds as near 100% as possible, through daily and projected cash flow determinations. Idle cash management and investment transactions are the responsibility of the Director of Administrative Services/Town & District Treasurer.

The basic premise underlying the Town/District investment philosophy is, and will continue to be, to ensure that money is always safe and available when needed.

George T. Warman, Jr.
Director of Administrative Services/
Town & District Treasurer
January 22, 2010

Attachments: Prudent Person Rule

§ 2261. Investments

(a) **Degree of care, skill, prudence and diligence.** (1) Subject to paragraph (2), when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing property for the benefit of another, a trustee shall act with the care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not by way of limitation, the general economic conditions and the anticipated needs of the trust and its beneficiaries, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, to attain the goals of the trustor as determined from the trust instrument. Within the limitations of the foregoing and considering individual investments as part of an overall investment strategy, a trustee is authorized to acquire every kind of property, real, personal or mixed, and every kind of investment.

(2) The trustor may expand or restrict the standards set forth in paragraph (1) by express provisions in a trust instrument. Any trustee acting for the benefit of another under that instrument shall not be liable to anyone whose interests arise from that trust for the trustee's good faith reliance on those express provisions.

(b) **Retention of property.** In the absence of express provisions to the contrary in any trust instrument, a trustee may without liability continue to hold property received into a trust at its inception or subsequently added to it or acquired pursuant to proper authority if and as long as the trustee, in the exercise of good faith and of reasonable prudence, discretion and intelligence, may consider that retention is in the best interests of the trust or in furtherance of the goals of the trustor as determined from any trust instrument. Such property may include stock in the trustee, if a corporation, and stock in any corporation controlling, controlled by, or under common control with such trustee.

(c) **Deposit of funds.** In the absence of express provisions to the contrary in any trust instrument, a deposit of trust funds at interest in any bank (including the trustee, if a bank) shall be a qualified investment to the extent that such deposit is insured under any present or future law of the United States, is collateralized pursuant to any present or future law of this state or the United States, or to such greater extent as a court of competent jurisdiction may authorize. Nothing in this section shall be construed as limiting the right of trustees in proper cases to make deposits of trust moneys in banks, subject, in the case of interest-bearing deposits, to such notice or other conditions respecting withdrawal as may be prescribed by law or governmental regulation affecting such deposits.

(d) **Deviations from terms of trust; court order.** Nothing in this section shall abrogate or restrict the power of the appropriate court in

proper cases to direct or permit the trustee to deviate from the terms of the trust regarding the making or retention of investments.

(e) **Application of section; construction of investment authorizations.** The provisions of this section shall apply to all trusts now existing or hereafter created. The terms "investments permissible by law for investment of trust funds," "authorized by law for investment of trust funds," "legal investments," "authorized investments," "investments acquired using the judgment and care which men of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of their capital," and other words of similar import used in defining the powers of the trustee relative to investments, in the absence of other controlling or modifying provisions of the trust instrument, shall be construed as authorizing any investment permitted, and imposing the standard of prudence required, by the terms of subdivision (a) of this section.

(f) **Property defined.** The term "property" as used in this section includes life insurance, endowment, and annuity contracts issued by legal reserve companies authorized to do business in this state.

(Enacted 1872. Amended by Stats.1943, c. 811, p. 2602, § 1; Stats.1967, c. 688, p. 2054, § 1; Stats.1967, c. 1706, p. 4265, § 1; Stats.1968, c. 161, p. 385, § 1; Stats.1969, c. 259, p. 611, § 1; Stats.1984, c. 1372, § 1.)

Historical Note

The section, as originally enacted in 1872, provided:

"A trustee must invest money received by him under the trust, as fast as he collects a sufficient amount, in such manner as to afford reasonable security and interest for the same."

The 1943 amendment rewrote the section to read:

"(1) In investing, reinvesting, purchasing, acquiring, exchanging, selling and managing property for the benefit of another, a trustee shall exercise the judgment and care, under the circumstances then prevailing, which men of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of their capital. Within the limitations of the foregoing standard, and subject to any express provisions or limitations contained in any particular trust instrument, a trustee is

authorized to acquire every kind of property, real, personal or mixed, and every kind of investment, specifically including, but not by way of limitation, corporate obligations of every kind, and stocks, preferred or common, which men of prudence, discretion and intelligence acquire for their own account.

"(2) In the absence of express provisions to the contrary in the trust instrument, a trustee may continue to hold property received into a trust at its inception or subsequently added to it or acquired pursuant to proper authority if and as long as the trustee, in the exercise of good faith and of reasonable prudence, discretion and intelligence, may consider that retention is in the best interests of the trust.

"(3) In the absence of express provisions to the contrary in the trust instrument, a deposit of trust funds at interest in any savings bank or the savings department of any bank (including the savings department of the trustee, if a bank) shall be a qualified investment to the extent that such deposit