

December 28, 2015



TO: LOCSO Board of Directors

FROM: Michael Doyel, District Accountant

SUBJECT: **Agenda Item 7C – 1/7/2016 Board Meeting**
Discuss Finance Advisory Committee (FAC) Recommendations
to the District Investment Policy.

MTD

DESCRIPTION

Board discussion of FAC recommendations to the District's Investment Policy, direct staff to amend the policy if necessary, and bring back for adoption at the February 4, 2016 meeting.

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STAFF RECOMMENDATION

Staff recommends that the Board adopt the following motion:

Motion: I move that the Board direct staff to amend the policy, as discussed, for adoption at the Board's February 4, 2016 meeting.

DISCUSSION

Discussion on this matter has been ongoing. Staff was asked to look into how other districts of the same size invest their funds. Staff looked into many different districts including Cambria Community Services District, Oceano Community Services District, Templeton Community Services District, and Santa Maria Utilities. In each case, the majority of the funds were invested in the Local Agency Investment Fund (LAIF). This fund is managed by the State of California's Treasurer's Office. Under Federal Law, the State of California cannot declare bankruptcy, thereby allowing the Government Code Section 16429.3 to stand. This Section states that "moneys placed with the Treasurer for deposit in the LAIF by cities, counties, special districts, nonprofit corporations, or qualified quasi-governmental agencies shall not be subject to either of the following: (a) transfer or loan pursuant to Sections 16310, 16312, or 16313, or (b) impoundment or seizure by any state official or state agency." This fund is 100% liquid, meaning that at the board's discretion the District can receive the entire balance within 24 hours. During the 2002 legislative session, California Government Code Section 16429.4 was added to the LAIF's enabling legislation. This Section states that "the right of a city, county, city and county, special district, nonprofit corporation, or qualified quasi-governmental agency to withdraw its deposited moneys from the LAIF, upon demand, may not be altered, impaired, or denied in any way, by any state official or state agency based upon the state's failure to adopt a State Budget by July 1 of each new fiscal year."

FINANCIAL IMPACT

The financial impact is unknown at current time.

Attachment: LOCSO Investment Policy (adopted 6/7/12)

LOS OSOS COMMUNITY SERVICES DISTRICT 2015 INVESTMENT POICY

1. INTRODUCTION

The purpose of this written *Investment Policy* is to establish the guidelines for the prudent investment of Los Osos Community Services District funds (herein referred to as District's funds). The objectives of this policy are safety, liquidity, yield, and compliance with state and federal laws and policies.

District funds are to be managed with a high degree of care and prudence. Though all investments contain a degree of risk, the proper concern for prudence, maintenance of high level of ethical standards, and proper delegation of authority reduces the potential for any realized loss.

This policy establishes the standards under which the District's Finance Officer will conduct business with financial institutions with regard to the investment process.

2. FINANCE OFFICER

The Board of Directors appoints the General Manager as the District Finance Officer and Treasurer. In the event of an extended absence of the General Manager, the Acting General Manager or Interim General Manager will act as the Acting District Finance Officer and Treasurer.

3. SCOPE

The District investment portfolio shall consist of moneys held in sinking funds, reserves or designations, trust funds or surplus funds not required for the immediate necessities of the District. The District's funds shall be invested in accordance with this policy.

4. OBJECTIVES

The primary objectives are safety, liquidity, yield, and compliance.

A. SAFETY

The investment portfolio shall be managed in a manner that ensures the preservation of capital. The objective is to minimize credit risk and interest rate risk.

B. LIQUIDITY

The investment portfolio shall remain sufficiently liquid to meet all operating requirements. This shall be accomplished by structuring the investment portfolio so that investments mature concurrent with cash needs.

C. YIELD

Yield shall be a consideration only after the requirements of safety and liquidity have been met.

D. COMPLIANCE

This Investment Policy is written to be in compliance with California and Federal law.

5. STANDARDS OF CARE

A. PRUDENCE

The Finance Officer will manage the portfolio pursuant to the "Prudent Investor Standard." When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds in the District's investment portfolio, the Finance Officer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, 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 District.

B. DISCLOSURES

The Finance Officer shall disclose to the Board in open meeting any material interest in financial institutions with which he/she conducts the District business and at that time ask the Board to issue a determination whether a conflict of interest exists that will prohibit investing in the financial institutions.

6. INVESTMENTS AUTHORITY

The Government Code of the State of California, specifically section 53601 and related subsections authorizes the types of investment vehicles allowed in a California local agency's portfolio. These are summarized below.

A. PERMITTED INVESTMENTS

The District Finance Officer is authorized to invest in the following institutions:

1. County pooled funds (California Government Code § 61730)
2. The Local Agency Investment Fund created by the California State Treasury (California Government Code § 16429.1)
3. One or more FDIC insured Banks and/or Savings and Loan Associations that are designated as District depositories by resolution of the Board of Directors (California Government Code § 61737.02).
4. Such other financial institutions or securities that may be designated by the Board of Directors from time to time in compliance with California and Federal law.

B. PROHIBITED INVESTMENTS

The District's Finance Officer shall not invest in:

1. Inverse floaters, range notes or interest only strips that are derived from a pool of mortgages.
2. Any security that could result in a zero interest accrual if held to maturity.
3. A state or federal credit union, if a member of the District's Board of Directors or an administrative officer also serves on the Board of Directors, or any committee appointed by the Board of Directors, or the credit committee or supervisory committee, of the state or federal credit union.

C. DIVERSIFIED INVESTMENTS

Investments, other than investments referenced in paragraphs A (1) and A (2) above, will be diversified to avoid losses that may be associated with any one investment.

7. REPORTS

Meeting the reporting deadlines as specified in this section may not be possible in some cases on account of the schedules of meetings of the Board. In these cases, the report will be submitted at the Board meeting following the scheduled due date.

A. **MONTHLY REPORT**

Finance Officer/Treasurer shall make monthly reports to the Board of investments made or retired during the preceding month.

B. **QUARTERLY REPORT**

In accordance with section 53646 of the Government Code, the Finance Officer shall file a quarterly report that identifies the District's investments and their compliance with the District's Investment Policy. The quarterly report must be filed with the District's Board of Directors within thirty (30) days after the end of each quarter.

Required elements of the quarterly report are as follows:

1. Type of Investment
2. Institution
3. Date of Maturity (if applicable)
4. Amount of deposit or cost of the security
5. Current market value of securities with maturity in excess of twelve months (if applicable)
6. Rate of Interest
7. Statement relating the report to the Statement of Investment Policy
8. Statement of the District's ability to meet cash flow requirements for the next six months
9. Accrued Interest (if applicable)

C. **ANNUAL REPORT**

Prior to February 1st of each year, the Finance Officer shall file and submit an annual report to the District's auditor and the Board of Directors which will contain the same information required in the quarterly report.

The annual report will include a recommendation to the Board of Directors to either:

1. Readopt the District's then current annual Investment Policy; or
2. Amend the District's then current Investment Policy

D. **LIMITED QUARTERLY REPORT**

If the District has placed all of its investments in the Local Agency Investment Fund (LAIF), created by California Government Code § 16429.1, or in Federal Deposit Insurance Corporation, insured accounts in a bank or savings and loan association, in a County investment pool, or any combination of these, the Finance Officer may submit to the Board of Directors the most recent statement or statements received by the District from these institutions in lieu of the information required in paragraph 7.B, above. This special reporting policy does not relieve the Finance Officer of the obligation to prepare an annual investment report as identified in paragraph 7.C, above.