



# Coastside Fire Protection District

## STAFF REPORT

**TO:** Finance Committee Members

**FROM:** Jonathan Cox, Deputy Fire Chief

**DATE:** October 26, 2022

**SUBJECT:** REVIEW OF DISTRICT INVESTMENT POLICY

### **Staff Recommendation**

Staff recommends that the Finance Committee review the District's Investment Policy and recommend changes to the Board since it is the Board that will take final action.

### **Background**

As required by California Government Code §53646, the District has an Investment Policy that governs the investment of surplus funds for purposes of generating investment income for the District. It is prudent for the Board to periodically review and approve modifications to the Investment Policy so that it reflects and responds to the changing economic and investment market.

The periodic review must be conducted at a public meeting per Government Code §53646(a). The last review of the District's Investment Policy was conducted in January 2015. President Burke requested that the Investment Policy be placed on the Finance Committee's agenda in order for the Committee to review its content and provide direction as to whether or not any changes should be recommended to the Board. If so, staff will draft revisions for the Board's approval at the November 2022 Board meeting.

To assist the Finance Committee in its review, investment policies from two other local fire agencies are attached for comparison purposes. See Attachment 2, Central County Fire Department's Investment Policy, and Attachment 3, Belmont-San Carlos Fire Department's Investment Policy.

### **Attachments**

1. Coastside Fire Protection District's Investment Policy
2. Central County Fire Department's Investment Policy
3. Belmont-San Carlos Fire Department's Investment Policy

## **ATTACHMENT 1**

## COASTSIDE FIRE PROTECTION DISTRICT

### STATEMENT OF INVESTMENT POLICY

#### PURPOSE

This statement provides guidelines for the prudent investment and cash management of the District's funds.

#### OBJECTIVE

The District's cash management system is designed to monitor and forecast accurately expenditures and revenues; thus enabling the District to invest funds to the fullest extent possible. The District's primary objective is to safeguard the principal of the funds; the second objective is to meet the liquidity needs of the District; and the third objective is to achieve a return on the invested funds.

#### POLICY

At all times, the District shall invest its funds in accordance with the rules and restrictions established by the laws of the State of California (Government Code Section 53600 et seq.). The District shall conduct its investments under the "prudent investor standard": When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, a trustee 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." (California Government Code Section 53600.3).

The policy shall be reviewed annually by the District's Board of Directors at a public meeting. (California Government Code Section 53646(a)).

1. Criteria for Selecting Investments. Criteria for selecting investments and the order of priority are:
  - a. Safety. The safety and risk associated with an investment refer to the potential loss of principal, interest or a combination of these amounts. The District shall operate only in those investments that are considered very safe.
  - b. Liquidity. An adequate percentage of the portfolio, in the approximate amount of annual operating expenses, should be maintained in liquid short-term investments which can be converted to cash if necessary to meet disbursement requirements. A short-term investment is defined as any investment which matures within a one year period.
  - c. Yield. Yield becomes a consideration only after the basic requirements of safety and liquidity have been met.

2. **Delivery of Securities.** Securities shall be delivered by book entry, physical delivery or by third party custodial agreement. (California Government Code Section 53601).
3. **Diversification.** The portfolio should consist of a mix of authorized types of investments described in this policy. As a general rule, long-term maturities should not represent a significant percentage of the total portfolio, as the principal risk involved can outweigh the potential for higher earnings.
4. **Terms of Investments.** Except for public statutory exceptions or when authorized by the Board of Directors either specifically or as part of an investment program no less than 3 months prior to the investment, no investment shall be made in a security with a term remaining to maturity in excess of five years. (California Government Code Section 53601).
5. **Deposit of Funds.** As far as possible, all money belonging to or in the custody of the District and needed for District operations shall be deposited with the San Mateo County Treasury for deposit in any authorized depository with the objective of realizing maximum return, consistent with prudent financial management. (California Government Code Sections 53630, 53635 and 53637).

Any monies that the District receives as a donation shall be deposited for safekeeping in state or national banks, savings associations or federal associations, credit unions or federally insured industrial loan companies in California (as defined by California Government Code Section 53630).

Pursuant to California Government Code Section 53638, the maximum deposit shall not exceed the shareholder's equity in any depository bank; the total net worth of any depository savings association; or the total of unimpaired capital and surplus of any credit union or industrial loan company.

The District's funds may also be invested in the instruments set forth in Section 6 below if specifically authorized by the Board of Directors.

6. **Allowable Investment Instruments.** The District may invest funds in the following investment instruments with prior approval of the Board of the Directors:
  - a. County Treasury Pool pursuant to California Government Code Section 53684.
  - b. Local Agency Investment Fund ("LAIF") pursuant to California Government Code Section 16429.1. Any withdrawals from LAIF will be deposited with the County Treasury Pool.
  - c. PARS Public Agencies Post-Retirement Health Care Plan Trust to fund post-retirement benefits for its retirees.

7. **Prohibited Investments.** The District shall not invest any funds in inverse floaters, range notes or interest-only strips that are derived from a pool of mortgages. The District shall not invest any funds in any security that could result in zero interest accrual if held to maturity; however, the District may hold this prohibited instrument until its maturity date. The limitation does not apply to investments in shares of beneficial interest issued by diversified management companies as set forth in California Government Code Section 53601.6.

#### **REPORTING**

At least quarterly, the Fire Chief shall submit an investment report to the Board of Directors within 30 days following the end of the quarter. The report shall include the following information:

1. type of investment, issuer, date of maturity, par and dollar amount invested in all securities, investments and money held by the District;
2. description of any of the District's funds, investments or programs that are under the management of contracted parties, including lending programs;
3. for all securities held by the District or under management by any outside party that is not a local agency or the State of California Local Agency Investment Fund, a current market value as of the date of the report and the source of this valuation;
4. statement that the portfolio complies with the Investment Policy or the manner in which the portfolio is not in compliance; and
5. statement that the District has the ability to meet its pool's expenditure requirements (cash flow) for the next six months or provide an explanation as to why sufficient money shall or may not be available.

To the extent that the District places its investments in the Local Agency Investment Fund, National Credit Union Share Insurance Fund-insured accounts in a credit union, credit union account insured or guaranteed pursuant to California Financial Code Section 14858, Federal Deposit Insurance Corporation-insured accounts in a bank or saving and loan association or county investment pool (or any combination of these five), the Fire Chief may submit, on at least a quarterly basis, the most recent statements from these institutions to meet the requirements of items 1-3 above, with a supplemental report addressing items 4 and 5 above. (California Government Code Section 53646(b)-(e)).

## **ATTACHMENT 2**



AGENDA ITEM: 10b

## STAFF REPORT

MTG. DATE: December 11, 2019

**TO:** Board of Directors

**DATE:** December 11, 2019

**FROM:** Jan Cooke, Finance Director  
John Kammeyer, Fire Chief

**APPROVED BY:**

A handwritten signature in blue ink, appearing to read 'Lisa K. Goldman'.

Lisa K. Goldman, CAO

**SUBJECT:** Adopt Resolutions Adopting an Investment Policy and Authorizing Investment of Monies in the Local Agency Investment Fund

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### **Recommendation:**

Adopt resolutions approving the proposed Investment Policy and authorizing the Finance Director/Treasurer to invest in the Local Agency Investment Fund

### **Background:**

Staff is proposing that Central County Fire Department ("Department") invest its idle cash into investments in order to earn investment income on the monies. The Department currently uses a checking account for all monies and has reserves for workers' compensation self-insurance, asset replacement, and other general purposes that can earn investment income.

Adoption of the investment policy authorizes the Finance Director/Treasurer to invest funds in accordance with the policy. The policy outlines the authority, approved investment types, and other criteria important for ensuring compliance with the California government code. The proposed investment policy for the Department is limited to investment in the State of California Local Agency Investment Fund (LAIF) due to its safety, liquidity and return features. As the Department's funds are minimal and need to be liquid, the LAIF program is a good fit.

The State of California Local Agency Investment Fund (LAIF) requires that the City submit a list of Department staff authorized to deposit and withdraw money into, and out of, the State investment pool. The JPA Board is asked to adopt a resolution in a format required by LAIF authorizing the Department's Finance Director/Treasurer to act on behalf of the Department in dealing with LAIF.

LAIF is a State investment pool administered by the Treasurer of the State of California into which cities and other local governmental entities may invest idle funds. By pooling the cash deposited by these local agencies, LAIF staff is able to invest through a diversified portfolio with savings on security purchase costs due to economies of scale. The pool invests in high quality securities to insure the portfolio's safety; however, the portfolio is managed so that any agency can withdraw up to all of its deposits on any given day, subject to certain restrictions. LAIF staff has managed to achieve exceptional yields over the life of the investment pool considering its emphasis on safety and liquidity.

California Government Code section 16429.3 protects the local governmental entities' funds from seizure, impoundment, loan, or transfer by the State of California. If the State fails to adopt a budget, California Government Code section 16429.4 protects the rights of participating local agencies to withdraw funds upon demand. Such rights cannot be "altered, impaired or denied in any way" by any State official or State agency under this code section.

Details regarding the LAIF program and oversight can be viewed at the State Treasurer's website at: <https://www.treasurer.ca.gov/pmia-laif/laif/program.asp>

**Fiscal Impact:**

There is no fiscal impact for approving the resolutions. Monies invested in LAIF are expected to earn investment income. The estimated amount will depend on the balance invested. For example, a \$3 million balance at the current rate of 2.4% would be approximately \$70k in annual income.

**Attachments:**

1. Resolution Adopting an Investment Policy
2. Resolution Authorizing Investment of Monies in the Local Agency Investment Fund
3. CCFD Investment Policy





## **CENTRAL COUNTY FIRE DEPARTMENT**

### **STATEMENT OF INVESTMENT POLICY**

**December 2019**

#### **PURPOSE**

This statement contains guidelines for the prudent investment of the Central County Fire Department's ("Department") temporarily idle cash in accordance with Government Code sections 53600, et. seq. The ultimate goal of the Department's Investment Policy is to protect the Department's pooled cash while producing a reasonable rate of return on investments.

#### **SCOPE**

The Investment Policy applies to all funds and investment activities of the Department except the investment of bond proceeds, which are governed by the appropriate bond documents, and any pension or other post-employment benefit funds held in a trust.

#### **PRUDENCE**

The standard of prudence to be used by investment officials will be the "prudent investor" standard, which states that, "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 the 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."

#### **OBJECTIVES**

The primary objectives, in priority order, of the investment activities of the Department are:

1. **SAFETY-** Safety of principal is the foremost objective of the Central County Fire Department.

2. LIQUIDITY - The Department's portfolio will remain sufficiently liquid to enable the Department to meet its cash flow requirements. It is important that the portfolio contain investments that provide the ability of being easily sold at any time with minimal risk of loss of principal or interest.
3. RETURN - The Department's portfolio will be designed to attain a market rate of return through economic cycles consistent with the constraints imposed by its safety objective and cash flow considerations.

## **DELEGATION OF INVESTMENT AUTHORITY**

The Joint Powers Agreement Section 5, Subsection 5.1(l) gives the Department the authority "to invest money pursuant to California Government Code Section 6505.5 that is not required for the immediate necessities of the Department, as the Department determines is advisable, in the same manner and upon the same conditions as local agencies, pursuant to Section 53601 of the California Government Code as it now exists or may hereafter be amended." Section 7, Powers and Duties of Governing Board, Subsection 7.1(e) authorizes the Board to invest funds pursuant to the Department's investment policy.

With the adoption of the Investment Policy, the JPA is delegating investment authority to the Finance Director/Treasurer to invest monies in accordance with this investment policy.

## **INVESTMENT PROCEDURES**

The Finance Director/Treasurer will establish investment procedures for the operation of the Department's investment program.

## **ETHICS AND CONFLICTS OF INTEREST**

Officers and employees involved in the investment process will refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

## **AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

The Finance Director/Treasurer is only authorized to invest in the State pool – Local Agency Investment Fund (“LAIF”). There are no authorized financial dealers or institutions.

## **ACCEPTABLE INVESTMENT INSTRUMENTS**

Acceptable investments authorized for purchase by the Finance Director/Treasurer are:

1. **Local Agency Investment Fund (State Pool)** - an investment pool run by the State Treasurer. The Department can invest up to the maximum amount permitted by the State Treasurer.

## **RESTRICTION ON INVESTMENT POLICY AND DEPARTMENT CONSTRAINTS**

1. **Investment Pools** - The State pool invests in additional Government Code authorized investments that are not approved for direct purchase by the Finance Director/Treasurer. These pools shall provide a current investment policy and monthly reports for review by the Finance Director/Treasurer. The Finance Director/Treasurer is authorized to invest in these pools provided they reasonably appear to be in conformance with their investment policies.

## **MATURITY LIMIT**

State law requires that the weighted average maturity of the investments should not exceed five years.

## **INTERNAL CONTROL**

The Finance Director/Treasurer is responsible for establishing and maintaining an internal control structure designed to provide reasonable assurance that the assets of the Department are protected from loss, theft or misuse. The Department Manager or designee shall arrange for an annual audit by an external CPA firm in compliance with the requirements of state law and generally accepted accounting principles as pronounced by GASB (Governmental Accounting Standards Board). As part of the audit, investment transactions will be tested. The annual audit will be an integral part, but not the sole part, of management's program of monitoring internal controls.

## **PERFORMANCE STANDARDS**

The performance standards of the Department's investment in LAIF will be guided by the policies, goals and objectives of the LAIF program.

## **REPORTING**

In compliance with California Government Code Section 53646e, the Finance Director/Treasurer will provide the LAIF Quarterly Investment Report to the JPA Board.

## **POLICY REVIEW**

This Investment Policy will be reviewed at least annually to ensure its consistency with:

1. The California Government Code sections that regulate the investment and reporting of public funds.
2. The overall objectives of preservation of principal, sufficient liquidity, and a market return.

## Glossary

**Liquidity** refers to the ease and speed with which an asset can be converted into cash without loss of value. In the money market, a security is said to be liquid if the difference between the bid and asked prices is narrow and reasonably sized trades can be done at those quotes.

**Local Agency Investment Fund (LAIF)** is a special fund in the State Treasury that local agencies may use to deposit funds for investment. There is no minimum investment period and the minimum transaction is \$5,000, in multiples of \$1,000 above that, with a maximum of \$65 million for any California public agency. It offers high liquidity because deposits can be converted to cash in twenty-four hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share determined by the amounts deposited and the length of time they are deposited. Interest is paid quarterly via direct deposit to the agency's LAIF account. The State keeps an amount for reasonable costs of making the investments, not to exceed one-quarter of one per cent of the earnings.

**Maturity** is the date upon which the principal or stated value of an investment becomes due and payable.

**Principal** describes the original cost of a security. It represents the amount of capital or money that the investor pays for the investment.

**Total Return** is the performance of a portfolio including interest income and any capital appreciation or depreciation as a result of interest rate movements.

**Yield to Maturity** is the rate of income return on an investment, minus any premium above par or plus any discount with the adjustment spread over the period from the date of the purchase to the date of maturity of the bond.

## **ATTACHMENT 3**



## STAFF REPORT

**Agency:** Belmont-San Carlos Fire Department  
**Staff Contact:** Grace Castaneda, Controller  
**Agenda Title:** Annual Investment Policy  
**Agenda Action:** Motion

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### **Recommendation**

Receive the Belmont-San Carlos Fire Department Investment Policy as rendered by the Controller/City Treasurer.

### **Background**

In past years, the State of California Government Code Section 53646 required the Treasurer to render to the Fire Commission, at a public meeting, an annual investment policy. Although the Board's approval is no longer required by statute, the Authority, consistent with best practice, annually reviews and accepts its Investment Policy to provide transparency and disclosure.

### **Analysis**

The Investment Policy, as recommended, affirms the Controller's/Treasurer's fiduciary responsibility to safeguard public assets. The policy places a high priority on ensuring safety of principal first and foremost, and then ensuring that the liquidity needs for payment of Authority obligations are met, prior to considering yield on investments. There were no material changes from the prior year.

### **Alternatives**

1. With direction, refer the presented Investment Policy back to the Controller/City Treasurer.

### **Attachments**

- A. Investment Policy

### **Fiscal Impact**

- No Impact/Not Applicable  
 Funding Source Confirmed:

#### **Source:**

- Board  
 Staff  
 Citizen Initiated  
 Other\*

#### **Purpose:**

- Statutory/Contractual Requirement  
 Council Vision/Priority  
 Discretionary Action  
 Plan Implementation\*

#### **Public Outreach:**

- Posting of Agenda  
 Other\*

**CITY OF BELMONT  
INVESTMENT POLICY**

TO: Commission of Belmont-San Carlos Fire Department  
Belmont City Manager/San Carlos City Manager  
Belmont-San Carlos Fire Attorney

FROM: Grace Castaneda, Controller/City Treasurer

RE: Annual Investment Policy

DATE: March 11, 2022

As provided under the Joint Powers Agreement of the Belmont-San Carlos Fire Department, the City of Belmont is designated as the controller and treasurer with the related responsibilities. Consequently, the Department follows the Investment Policy adopted by the City of Belmont, which is presented below, however and consistent with past practice, the reporting of investments will coincide with the release of interim financial statements which is on a quarterly basis.

1.0 Policy:

It is the policy of the City of Belmont to invest public funds in a manner which will maximize security, followed by meeting the daily cash flow demands of the entity and then provide the highest investment return consistent with, and conforming to, all state and local statues governing the investment of public funds.

2.0 Scope:

This investment policy applies to all investments as defined by the State of California Government Code accounted for in the City of Belmont's Comprehensive Annual Financial Report.

3.0 Prudence:

Investments shall be made with judgment and care--under circumstances then prevailing--which persons of prudence, discretion 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 income to be derived.

3.1 The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy 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 fashion and appropriate action is taken to control adverse developments.

#### 4.0 Objectives:

The primary objectives, in priority order, of the City of Belmont's investment activities shall be:

- 4.1 **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the City of Belmont shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, **diversification** is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. Funds invested with the California Local Agency Investment Fund administered by the California State Treasurer meet this requirement for diversification.
- 4.2 **Liquidity:** The City of Belmont's investment portfolio will remain sufficiently liquid to enable the City of Belmont to meet all operating requirements as reasonably anticipated.
- 4.3 **Return on Investments:** The City of Belmont's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the City of Belmont's investment risk constraints and the cash flow characteristics of the portfolio.

#### 5.0 Delegation of Authority:

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director/City Treasurer. The Finance Director/City Treasurer shall be responsible for all investment transactions undertaken and shall establish a system of internal controls to regulate the activities of authorized personnel.

#### 6.0 Ethics and Conflicts of Interest:

Officers and employees 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. Employees and investment officials shall disclose to the

Belmont City Clerk any material financial interests in financial institutions that conduct business within this jurisdiction.

7.0 Reporting:

The Finance Director/City Treasurer shall provide to the City Council monthly investment reports which provide a clear picture of the status of the current investment portfolio.

Schedules in the monthly report should include the following:

- A listing of individual securities held at the end of the reporting period by authorized investment category.
- Final maturity of all investments listed.
- Coupon, discount or earnings rate.
- Par value and market value.

8.0 Investment Policy Adoption:

The City of Belmont's investment policy shall be accepted by the City Council. The policy shall be reviewed annually and any modifications made thereto must be approved by the City Council.