

# FUNDAMENTALS OF PUBLIC FUNDS INVESTING



AGENCY PROFILE | INVESTMENT POLICY | JANUARY 14, 2021

**Don Patterson**

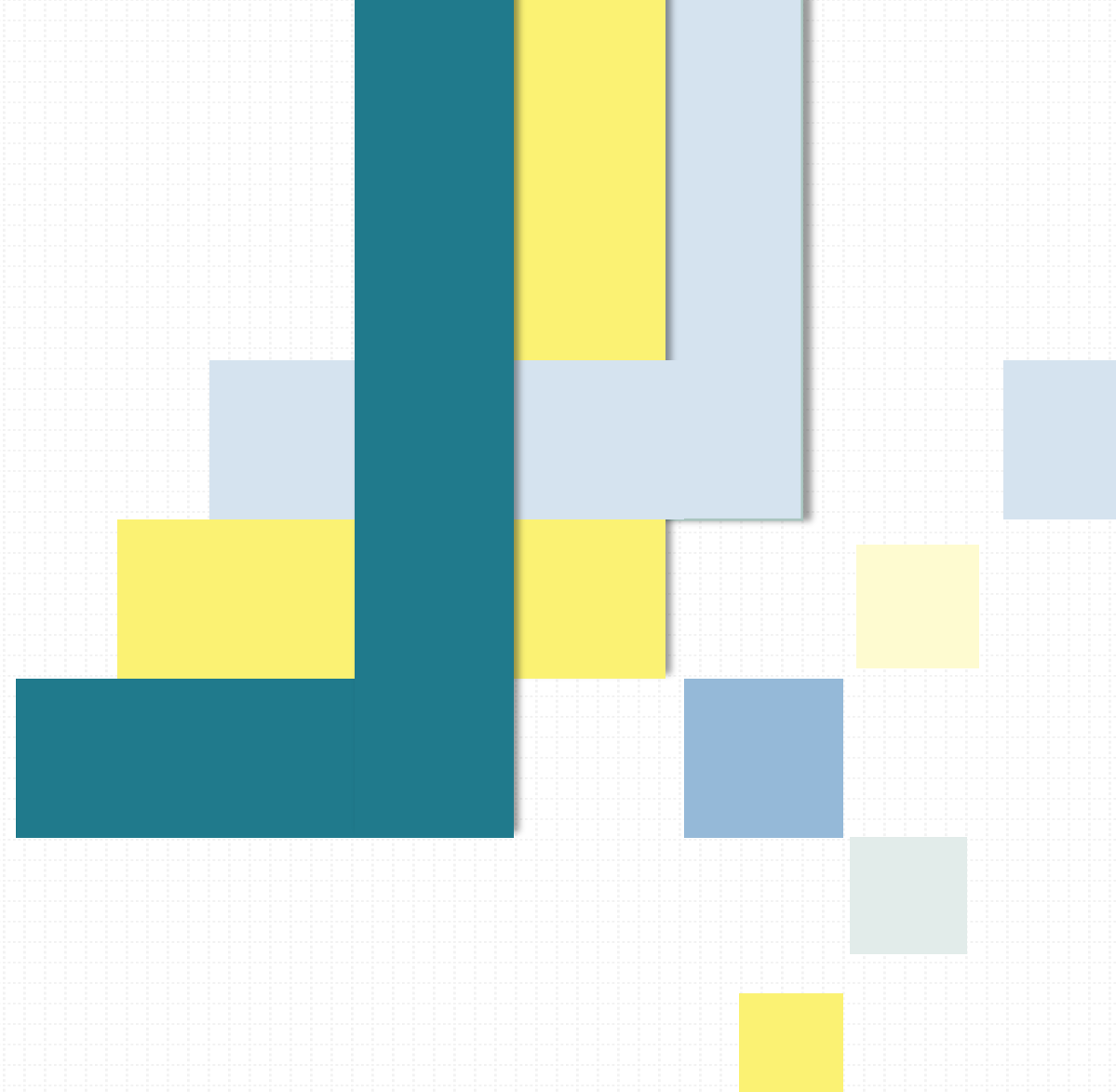
Director of Finance & Administrative Services, Las Virgenes Municipal  
Water District

CMTA President



# AGENDA

- Agency Profile
- Why have an Investment Policy?
- Developing a Policy
- Annual Review



# Agency Profile

## LAS VIRGENES MUNICIPAL WATER DISTRICT OVERVIEW

122

Positions

\$57.1 million

Operating Budget

\$88.5 million

Total Budget

1

Unrated Debt Issuance  
of \$10 million

\$100 million

Investment  
Portfolio



# Why have an investment Policy?

- Legal Compliance
- Fiduciary Responsibility
- Transparency

# LEGAL COMPLIANCE

## **Government Code Section 53646 (a) (2)**

In the case of any other local agency, the treasurer or chief fiscal officer of the local agency may annually render to the legislative body of that local agency and any oversight committee of that local agency a statement of investment policy, which the legislative body of the local agency shall consider at a public meeting. Any change in the policy shall also be considered by the legislative body of the local agency at a public meeting.

# FIDUCIARY RESPONSIBILITY

Agency Directors of Finance, City Treasurers, and Investment Officers have fiduciary responsibility and personal liability for the proper management of the agency's funds.

## Government Code Section 53600.3

Establishes fiduciary responsibility.

### **California Government Code 53600.3.**

Except as provided in subdivision (a) of Section 27000.3, all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. 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. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

## Prudent Investor Standard

## Conflicts of Interest

# FIDUCIARY RESPONSIBILITY

**Government Code  
Section 53600.3**

**Prudent Investor  
Standard**

**Conflicts of Interest**

The “prudent investor” standard 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.

# FIDUCIARY RESPONSIBILITY

**Government Code  
Section 53600.3**

**Prudent Investor  
Standard**

**Conflicts of Interest**

Governed by the California Fair Political Practices Commission (FPPC). Examples of Conflicts of Interest:

- Holding personal investments in the same equity positions.
- Using the same broker for personal and agency investments.
- Making investment decisions that personally benefit you.



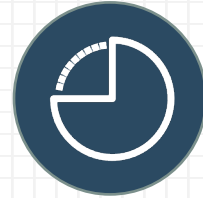
# TRANSPARENCY

Regular reporting increases transparency of investment decisions, the investment portfolio, and the financial condition of the agency.



## Monthly Report

A monthly report provides more timely information to the governing body.



## Quarterly Report

Government Code Section 53646

“The treasurer of Chief Financial Officer may render a quarterly report...”



## Investment Committee

Provides regular detailed review of investment activity and provides direction to the Treasurer and investment staff. May also review anticipated cash needs, provide direction, and met with auditors



# Developing an Investment Policy

1. Identify Needs
2. Review Requirements
3. Develop Policy
4. Establish Roles and Responsibilities
5. Establish Reporting

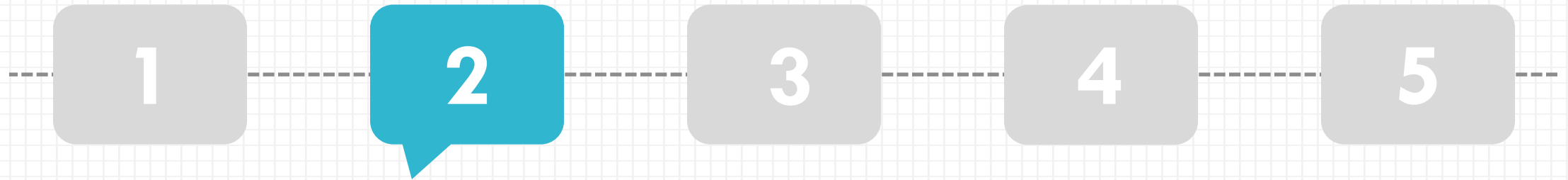
# Developing an Investment Policy



## Identify Needs

- What investments did the District have?
- What was governing those investments?
- Was there an established investment strategy?
- How were the investments tied to cash flow needs?

# Developing an Investment Policy



## Review Requirements

- CDIAAC and CMTA material on investment policies.
- State codes governing investment policies.
- Best practices.
- See what other similar agencies have done.

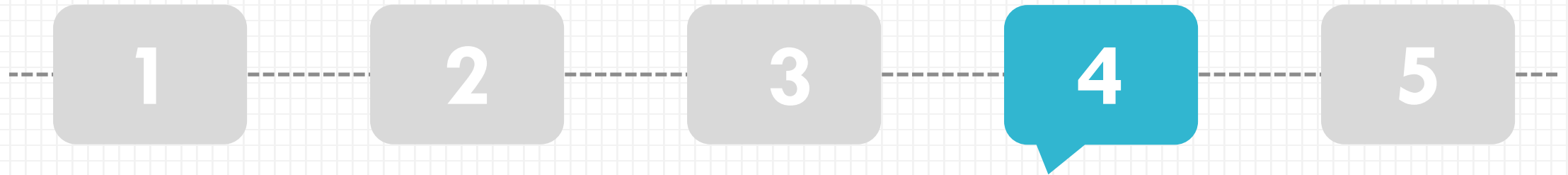
# Developing an Investment Policy



## Develop Policies

- Scope
- Objectives
- Standards
- Authorized Investments
- Safekeeping
- Diversification
- Controls
- Reporting

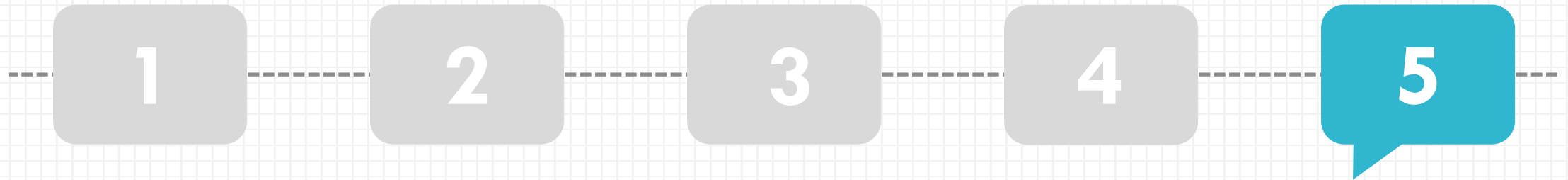
# Developing an Investment Policy



## **Establish Roles and Responsibilities**

- Oversight
- Separation of duties.
- RFPs for brokers/dealers/safekeeping

# Developing an Investment Policy

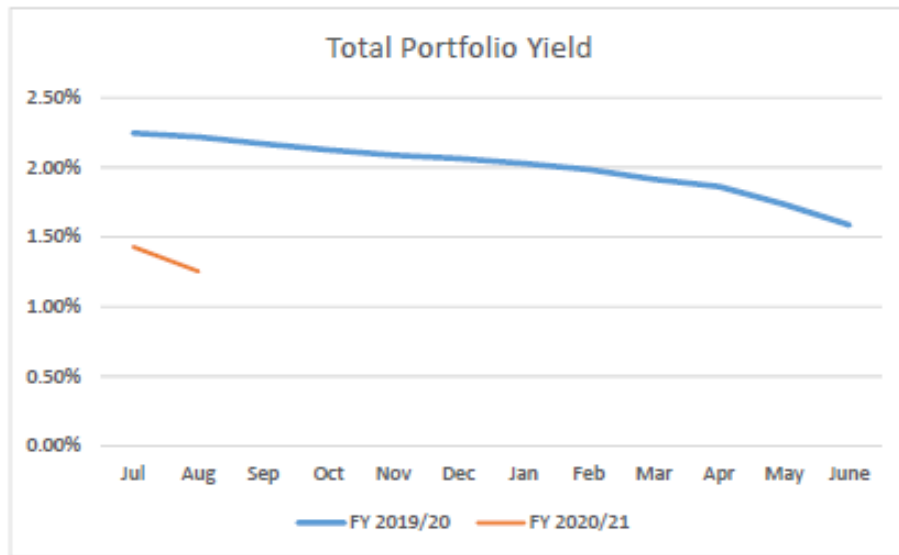


## Establish Reporting

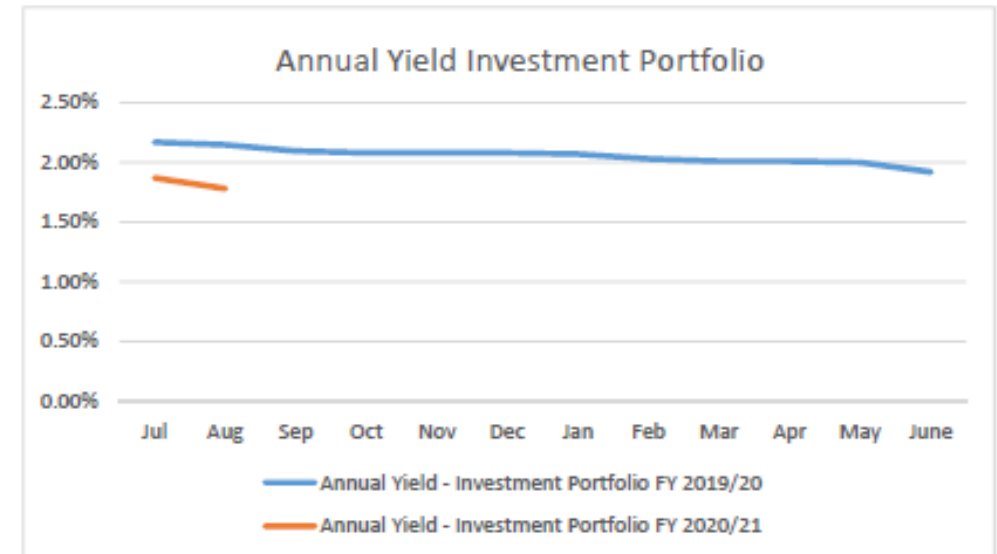
- What type of reporting do you want?
  - Monthly
  - Quarterly
- What do you want to include?

# Developing an Investment Policy

As of August 31, 2020, at Book Value, LAIF held 37.73% of the District's portfolio, the investment portfolio held 51.58%, CAMP held 10.62%, and the remaining portion was held in a money market account. As can be seen in the chart below, the total yield in August 2020 was 1.25%, down 18 basis points from July and down from 2.22% one year ago.



In August, the annualized yield for the District's Investment Portfolio was down from July at 1.78% and down from 2.15% a year ago. The chart below shows annualized monthly yield of the current fiscal year compared with the same monthly yield over the previous year.







# Annual Review

- Review policy annually as part of budget process.
- Confirm whether policy still meets the needs of the agency.
- Bring any recommended changes to the elected body.



# THANK YOU

We look forward to your participation in the next webinar in this series, *From Policy to Construction Portfolio Structure and Diversification*.

