POLICY 014: Investment Policy

This Investment Policy establishes guidelines for the management of cash, deposits and investments (together, “funds”) at MCE. When managing funds, MCE’s primary objectives, in order of importance, shall be to safeguard the principal of the funds, meet the liquidity needs of MCE, and achieve a return on investment on funds in MCE’s control.

Safety: Safety of principal is the foremost objective of cash and investment management activities. The investment of funds shall be undertaken in a manner that seeks to ensure the preservation of principal.

Liquidity: The funds of the agency shall remain sufficiently liquid to meet all operating needs that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the investment of funds in deposits or instruments available on demand is recommended.

Return on Investment: The deposit and investment portfolio shall be designed with the objective of attaining a market rate of return throughout the economic cycle while considering risk and liquidity constraints. The return on deposits and investments is of secondary importance compared to the safety and liquidity objectives described above.

Standard of Care

MCE will manage funds in accordance with the Prudent Investor Standard pursuant to California Government Code Section 53600.3.1: “Governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds 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, 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.”

Pursuant to Section 53607, the responsibility to manage funds is delegated to the Treasurer of MCE. The Treasurer may appoint Deputy Treasurers as the Treasurer deems necessary and convenient for the prompt and faithful discharge of its duties to invest and reinvest the funds of MCE, pursuant to Section 53607.

1 All further statutory references are to the California Government Code unless otherwise stated.
**Authorized Investments**

The following types of investments are permitted:

**Deposits at Bank(s):** Funds may be invested in non-interest bearing depository accounts to meet MCE’s operating and collateral needs and grant requirements. Funds not needed for these purposes may be invested in interest-bearing depository accounts or Federal Deposit Insurance Corporation (FDIC) insured certificates of deposit with maturities not to exceed five years.

Banks eligible to receive deposits will be federally or state chartered and will conform to Section 53635.2 which requires that banks “have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California’s communities, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code.”

FDIC insurance coverage in the United States is $250,000 per Tax ID Number. As per Section 53652, banks must collateralize the deposits of public agencies. The Treasurer, or a duly appointed Deputy Treasurer, will monitor the credit quality of eligible banks to ensure the safety of MCE deposits.

**Local Agency Investment Fund (LAIF):** Funds may be invested in the Local Agency Investment Fund. The LAIF was established by the California State Treasurer for the benefit of local agencies. Statutory requirements of the Local Agency Investment Fund include:

Section 16429.1

a. There is in trust in the custody of the Treasurer the Local Agency Investment Fund, which fund is hereby created. The Controller shall maintain a separate account for each governmental unit having deposits in this fund.

e. The local governmental unit, the nonprofit corporation, or the quasi-governmental agency has the exclusive determination of the length of time its money will be on deposit with the Treasurer.

j. Money in the fund shall be invested to achieve the objective of the fund which is to realize the maximum return consistent with safe and prudent treasury management.

i. Immediately at the conclusion of each calendar quarter, all interest earned and other increment derived from investments shall be distributed by the Controller to the contributing governmental units or trustees. An amount equal to the reasonable costs incurred in carrying out the provisions of this section, not to exceed a maximum of 5 percent of the earnings of this fund and not to exceed the amount appropriated in the annual Budget Act for this function, shall be deducted from the earnings prior to distribution.

Section 16429.4

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 Local Agency Investment Fund, 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.

**US Treasury Obligations:** Funds may be invested in United States Treasury obligations with a term to maturity not exceeding 5 years subject to the limitations set forth in Sections 53601 et seq. and 53635 et seq.
Federal Agency Securities: Funds may be invested in Federal Agency Securities with a term to maturity not exceeding 5 years subject to the limitations set forth in Sections 53601 et seq. and 53635 et seq.

Commercial Paper: Funds may be invested in commercial paper in accordance with the requirements of Section 53601 and subject to the following limitations:

i. No more than 25% of the total portfolio shall be invested in commercial paper;
ii. The term to maturity shall not exceed 270 days; and
iii. No more than 10% of outstanding commercial paper shall be from any single issuer.

The issuer of commercial paper must have the following:

i. Assets in excess of $500 million;
ii. A credit rating of A-1 or better by a Nationally Recognized Statistical Rating Organization (NRSRO); and
iii. A senior debt rated at A or better.

Bankers’ Acceptances: Funds may be invested in Banker’s Acceptances provided that they are issued by institutions which have short-term debt obligations rated “A-1” or its equivalent or better by at least one NRSRO. Not more that 30% of the portfolio may be invested in Bankers’ Acceptances, and no more that 5% of the portfolio may be invested in any single issuer. The maximum maturity shall not exceed 180 days.

Negotiable Certificates of Deposit: Funds may be invested in negotiable certificates of deposit in accordance with the requirements of Section 53601 and 53601.8, and subject to the following limitations:

i. Issued by an entity as defined in Section 53601(i); and
ii. No more than 30% of funds invested pursuant to this Investment Policy may be invested in certificates of deposit.

Placement Service Deposits: Funds may be invested in deposits placed with a private sector entity that assists in the placement of deposits with eligible financial institutions located in the United States (Section 53601.8). The full amount of principal and the interest that may be accrued during the maximum term of each deposit shall at all times be insured by federal deposit insurance. The combined maximum portfolio exposure to the deposits placed pursuant to this section, Insured Cash Sweep (ICS) and Certificate of Deposit Account Registry Service (CDARS) is limited to 50 percent and the maximum investment maturity will be restricted to five years, unless otherwise prescribed by law.

Money Market Funds: Funds may be invested in money market funds pursuant to Section 53601(l)(2) and subject to Section 53601(l)(4).

Prohibited Investments

Pursuant to Section 53601.6, MCE shall not invest funds in any security that could result in a zero interest accrual, or less, if held to maturity. These prohibited investments include inverse floaters, range notes, or mortgage-derived interest-only strips.

Investment Portfolio Management

The term to maturity of any funds invested shall not exceed 5 years pursuant to Section 53601. The Treasurer, or a duly appointed Deputy Treasurer, will allocate funds among authorized investments consistent with the objectives and standards of care outlined in this Policy.
Bids and Purchase of Securities

Prior to the purchase of an investment pursuant to this Policy the persons authorized to make investments shall assess the market and market prices using information obtained from available sources including investment services, broker/dealers, and the media. A competitive bid process, when practical, will be used to place all investment purchases and sales transactions.

Brokers

Broker/dealers shall be selected by the Chief Executive Officer upon recommendation by the Treasurer, or a duly appointed Deputy Treasurer. Selection of broker/dealers shall be based upon the following criteria: the reputation and financial strength of the company or financial institution, the reputation and expertise of the individuals employed, and pursuant to the requirements of Section 53601.5. The Chief Executive Officer shall be prohibited from selecting any broker, brokerage firm, dealer, or securities firm that has, within any 48-consecutive month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board to any member of the MCE Board, or any candidate for those offices. The broker/dealers shall be provided with and acknowledge receipt of the Investment Policy.

Losses

Losses are acceptable on a sale before maturity and may be taken if required to meet the liquidity needs of the agency or if the reinvestment proceeds will earn an income flow with a present value higher than the present value of the income flow that would have been generated by the original investment, considering any investment loss or foregoing interest on the original investment.

Delivery and Safekeeping

The delivery and safekeeping of all securities shall be made through a third party custodian when practical and cost effective as determined by the Treasurer, or a duly appointed Deputy Treasurer, and in accordance with Section 53608. The Director of Finance or their designee shall review all transaction confirmations for conformity with the original transaction.

Conflict of Interest

In accordance with state law, staff shall not accept honoraria, gifts, and gratuities from advisors, brokers, dealers, bankers, or other person with whom MCE conducts business.

Audits

MCE’s funds shall be subject to a process of independent review by its external auditors. MCE’s external auditors shall review the investment portfolio in connection with the annual audit for compliance with the statement of investment policy pursuant to Section 27134. The results of the audit shall be reported to the Director of Finance and the Ad Hoc Audit Committee.

Reports

Monthly: So long as the Board of Directors’ annual delegation of investment authority pursuant to Section 53607 to the Treasurer is effective, the Treasurer or a duly appointed Deputy Treasurer will perform a monthly review of the investment function and shall submit a monthly
report of all investment transactions to the Board of Directors. Investment transactions are defined as the purchase, sale or exchange of securities.

Annually: The Treasurer, or a duly appointed Deputy Treasurer, will submit an annual report to the Board of Directors and Chief Executive Officer within 30 days of the end of a fiscal year providing the following:

i. A list identifying the type of investment, issuer, date of maturity, par and dollar amount invested on all securities, the market value and source of the market value information;

ii. A statement that the portfolio is in compliance with the Investment Policy and in accordance with Section 53646 or the manner in which the portfolio is not in compliance; and

iii. A statement of MCE’s ability to meet expenditure requirements for the upcoming 12 months.

Annual Review

The Investment Policy will be reviewed annually by the Treasurer, or a duly appointed Deputy Treasurer. Any changes to the Investment Policy will be submitted to the Board for approval.