

# MEMORANDUM

TO: Local Agency Formation Commission

FROM: Shannon Costa, Deputy Executive Officer

SUBJECT: **Agenda Item 4.1 – Review and Consideration of Proposed Investment Policy**

DATE: April 23, 2024 for the meeting of May 2, 2024

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## Background

At the April 4, 2024 meeting, the Commission requested further information regarding the feasibility of investing a portion of the agency's reserve funds outside of the County Treasury for the purpose of realizing a higher rate of return on interest.

Historically, Butte LAFCo has kept its fund balance with the Butte County Treasury. The Butte County Treasurer's office manages investments on behalf of the County, various Trust and Agency Funds, School Districts and Special Districts within the County. "Pooling" deposits from local agencies and other participants benefit the public interest because banking and investment activities are consolidated, thereby reducing duplication, achieving economies of scale and carrying out coherent investment strategies. More recently however, the Federal Reserve has taken significant actions to moderate inflation resulting in much higher interest rates on a variety of investment vehicles. These interest rates exceed what is available through the Treasury or the Local Agency Investment Fund (LAIF). Staff believes that the timing is right to explore and expand our investment options.

Staff has consulted with our contract auditor for guidance in this matter and determined that there is no particular restriction for the Commission to entertain an alternative investment strategy aside from annual reporting, the security of the investment through the Federal Deposit Insurance Corporation (FDIC), and the protection of the principal sum of the investment.

## Butte LAFCo Investment Policy

California Government Code Section 53646 and good financial practice recommends that local agencies prepare a written investment policy and that the governing body review and approve the policy on an annual basis. Staff reviewed the investment policies of several similar LAFCOs, as well as other local agencies in Butte County, and developed a draft investment policy for review.

The proposed policy (**Attachment A**) identifies Safety, Liquidity, Prudence, and Return on Investment, in that order, as the agency's investment objectives; delegates authority to the Executive Officer; and limits investments to those specifically approved by Government Code.

**Recommendation: Consider the proposed Investment Policy and provide staff direction.**

**1.5.1 INVESTMENT POLICY OF THE BUTTE LOCAL AGENCY FORMATION COMMISSION**

A. Scope

This policy provides for the prudent investment of Butte Local Agency Formation (LAFCO) funds and for maximizing the efficiency of the LAFCO’s cash management system.

The purpose of this policy is to establish investment guidelines for Butte LAFCO officials to ensure the stewardship of agency funds. Any funds, which are not required for the immediate needs of the Butte LAFCO, shall be prudently invested. All funds shall be invested in a manner which ensures the safety of the public funds by mitigating credit and interest rate risk and provides sufficient liquidity to meet all operating requirements. LAFCO shall strive to attain a return on investments that is reasonable, given the safety of the principal and liquidity objectives and thirdly, the importance of yield. All investments shall be in conformance with federal, state, and local regulations.

B. Investment Objectives

The specified objectives for all funds invested as defined by this policy are listed in priority order as follows:

1) Safety of Principal

The preservation of principal is of primary importance. Each transaction shall seek to ensure that capital losses are avoided.

2) Liquidity

The invested funds should remain sufficiently flexible to enable Butte LAFCO to meet all operating requirements which may be reasonably anticipated.

3) Prudence

Investments should be made with precision and care, considering the safety of the capital. The prudent investor standard, a standard of conduct requiring that any investment be made with care, skill, prudence and diligence, shall be used in order to safeguard the funds and meet the liquidity needs of LAFCO.

Commissioners, officers, and employees involved in the investment process shall refrain from personal business activity that could conflict with the prudent execution and management of LAFCO’s investments, or that could impair their ability to make impartial decisions.

4) Return on Investment

Investments shall be undertaken to produce an acceptable rate of return after first considering safety of principal and liquidity and the prudent investor standard.

C. Delegation of Authority

Authority to manage LAFCO's investment program is delegated to the Executive Officer under the direction of the Commission.

D. Authorized Investments

Agency funds not required for immediate needs of the Butte LAFCO may be invested pursuant to Government Code Sections 53601 et seq. and 53635 or in accordance with the County's investment policy.

Such investments include, but are not limited to, the State Local Agency Investment Fund (LAIF), U.S. Government and Agencies obligations, Negotiable Certificates of Deposit, etc.

E. Reporting

The Executive Officer shall submit an annual report to the Commission showing investment activity, including yield and earnings and the status of cash by depository.

As part of the Commission's annual audit, the independent auditor shall also evaluate investment performance and conduct an operations audit. The purpose of these examinations shall be to obtain suggestions for improved future performance and to verify that investment has been done in accordance with this policy and all applicable laws.

F. Administration

The Commission shall at any time further restrict the securities approved for investment as deemed appropriate.

This policy may be revised by the Commission as necessary.