



March 21, 2019

Memorandum

To: Allen Baldwin, City Treasurer
Jason Simpson, Director of Administrative Services
Nancy Lassey, Finance Administrator
City of Lake Elsinore

From: Sarah Meacham, Managing Director
Richard Babbe, Senior Managing Consultant
PFM Asset Management LLC

Re: Investment Policy Review

At your request, we reviewed the City of Lake Elsinore's (the "City") Investment Policy (the "Policy") as part of the City's review process. As written, the Policy is in compliance with the California Government Code (the "Code") sections that govern the investment of public funds.

Although no changes are required, we are recommending several changes that we believe will improve the Policy's clarity and will prudently enhance the City's investment options. Our recommendation is summarized below. In addition, we have attached a redlined version of the Policy to illustrate our recommendation.

9. Safekeeping and Custody. We recommend that the City change the language in this section to specifically refer to deliverable securities. This clarifies that the requirements only refer to securities that can be physically delivered or placed into custody. Securities such as LGIPs and Money Market funds, which are not deliverable, are exempt from this requirement.

13. Authorized Financial Dealers and Institutions. To avoid possible compliance questions, we recommend that the City revise the Policy to indicate that the Policy requires the City Manager to maintain a list of authorized financial institutions only if the City plans to execute transactions on its own behalf.

Furthermore, while a competitive trade process is the preferred approach, we recommend the City revise the Policy to recognize that it is not always practical to obtain three bids on every transaction.

14.I. Bank Deposits. As bank deposits are not considered an investment under the Government Code (they are addressed in the Deposit of Funds section), it is not required to list bank deposits in the Policy. If the City prefers to explicitly list bank deposits within the Policy, we suggest using a more comprehensive description of bank deposits and the associated Code requirements.



14.P. Asset-Backed Securities (ABS). We recommend the City update its Policy to incorporate a recent Code change. AB 1770, which took effect January 1, 2019, eliminating the requirement that the issuer of the securities be rated “A” or its equivalent as provided by an NRSRO. We believe the removal of the issuer rating criteria makes sense since this requirement generally has no relevance to the issuers of ABS, which are organized as trusts and typically do not have standalone issuer ratings. The minimum “AA” issue rating remains, which is an important risk management criteria.

Please let us know if you have any questions or if you would like to discuss our recommendations in more detail.