

Cash Management and Investments

Sometimes, public agencies have funds on hand that are being held for longer-term needs. These may be invested in a variety of bonds (but not stocks), notes and other instruments allowed by state law.

The governing body's role is to be a wise steward of the public's resources. The objectives in managing public funds are, in priority order:

1. Safety (the likelihood that the agency will get all its money back)
2. Liquidity (the agency's ability to withdraw funds on short notice)
3. Yield (the interest or other return on the investment)

In light of these objectives, prudent public agency investment managers never seek to earn maximum returns on the agency's portfolio at the expense of safety or liquidity. This would expose the agency to an unacceptable level of too much risk.

Instead, they focus on seeking to earn a reasonable rate of return on the agency's investments, while preserving capital in the overall portfolio and meeting the cash flow needs of the agency.

There are funds that specialize in investing public agency funds; the Local Agency Investment Fund (LAIF) of the State Treasurer's office and CalTrust are examples.

Questions to Ask

- What oversight procedures does the agency use for its investments? Who is responsible for the day-to-day supervision of the agency's investment activities? If that authority has been delegated to the agency's treasurer, has that authority been delegated annually as required by law?¹
- If that authority has been contracted out, who is responsible for oversight?
- What is the agency's investment policy? Is it understandable? Does the governing body review it annually as the law requires?²
- Do governing body members receive and review periodic investment reports?³ Do these reports include an analysis of cash flow needs?
- Are the investment reports clear and understandable? (A lack of clarity can be a sign of problems or undue investment complexity.)

- Do the reports show numerous investments and transactions? Why? (Many public agencies do not have portfolios that justify “active” management with lots of sales, purchases and trades.)
- Are the agency’s investments diverse or are the agency’s assets invested in just a few places?
- Do the agency’s policies allow investments in derivatives or other potentially high-risk instruments? Does that agency have any such high risk investments?

Are any bank holdings over the FDIC insurance limit (which may vary from bank to bank) and do such depositories otherwise comply with state and federal standards to provide security for public agency deposits?⁴

To Access the Institute's resources financial management resources, including the complete version of this booklet, go to <http://www.ca-ilg.org/budgeting-finance>

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The Institute welcomes feedback on resource:

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References and Resources

Note: Sections in the California Code are accessible at leginfo.legislature.ca.gov. Fair Political Practices Commission regulations are accessible at www.fppc.ca.gov/index.php?id=52. A source for case law information is www.findlaw.com/cacases/ (requires registration).

- ¹ See Cal. Gov't Code § 53607.
- ² See Cal. Gov't Code § 53646(a).
- ³ See Cal. Gov't Code §§ 53607, 53646(b).
- ⁴ See Cal. Gov't Code § 53630 and following.