



## HERMOSA BEACH INVESTMENT POLICY

CITY COUNCIL APPROVAL DATE: MAY 14<sup>TH</sup>, 2013  
SUPERSEDES: Resolution No. 12-6782

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**Policy**

This policy is intended to provide guidelines for the prudent investment of funds of the City of Hermosa Beach (referred to throughout as 'the City') and to outline the policies for maximizing the efficiency of the City's cash management. The ultimate goal is to enhance the economic status of the City consistent with the prudent protection of the City's investments. This investment policy has been prepared in conformance with all pertinent existing laws of the State of California including California Government Code Sections 53600, *et seq.*

**Scope**

It is intended that this policy cover all funds and investment activities of the City except for the proceeds of certain capital project finance programs, which would be invested in accordance with provisions of their specific bond indentures. These funds would be defined and accounted for in the City's audited annual Basic Financial Statements Report and includes any new funds created unless specifically excluded by the City's Staff and Council.

**Prudent Investor Standard**

The City operates its investment portfolio under the Prudent Investor Standard (California Government Code Section 53600.3) which 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 need of the City, that a prudent person 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 City".

This standard shall be applied in the context of managing the overall portfolio. Investment officers, acting in accordance with written procedures and this investment policy and exercising the above standard of diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.



### **Liquidity**

Availability of sufficient cash to pay for current expenditures shall be maintained in local government investment pools that offer daily liquidity, or short-term securities that can easily be converted into cash because they have secondary markets.

### **Rates of Return**

Yield on investments shall be considered only after the basic requirements of safety and liquidity have been met. The investment portfolio shall be designed to attain a market average rate of return throughout economic cycles, taking into account the City's risk constraints, the composition and cash flow characteristics of the portfolio, and applicable laws.

### **Delegation of Authority and Safeguards**

Authority to manage City's investment program is derived from the California Government Code Sections 41001 – 41007 and 53600 - 53900. The City Manager, Finance Director, and the City Council hereby delegate management responsibility for implementing the investment program to the City Treasurer, according to the procedures set forth, and consistent with this investment policy. Such procedures shall authorize the City Treasurer to execute investment transactions subject to the written approval of either the City Manager or Finance Director. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established and approved by either the Finance Director or City Manager.

### **Procedures as stated in City Resolution No. 12-6822**

- (a) The City's funds are currently managed in a safe and prudent manner, with numerous safeguards in place to assure that City funds cannot be misdirected or misappropriated.
- (b) Existing safeguards include dual controls on all wired transfers and all City checks.
- (c) Contractual relationships with any brokerage entities to be engaged by the City to invest City funds shall be subject to the prior review and approval of the City Council.
- (d) All investment transactions must be authorized by the City Manager or Finance Director prior to their execution.
- (e) The sole authorized signators on City banking and brokerage accounts shall be the City Manager, the Finance Director and Accounting Supervisor.



statement, proof of state registration, proof of FINRA (Financial Industry Regulatory Authority) registration and a certification they have received and reviewed the City's Investment Policy and agree to comply with the provisions outlined in the Investment Policy. The City Treasurer may establish any additional criteria deemed appropriate to evaluate and approve any financial services provider. The selection process for broker-dealers shall be open to both "primary dealers" and "secondary/regional dealers" that qualify under Securities and Exchange Commission Rule 15c3-1 (Uniform Net Capital Rule), and the provider's representative must be experienced in institutional trading practices and familiar with the California Government Code as it relates to investments by a public entity.

### **Authorized and Suitable Investments**

The City is provided a broad spectrum of eligible investments under California Government Code Section 53600 et seq. The City may choose to restrict its permitted investments to a smaller list of securities that more closely fits the City's cash flow needs and requirements for liquidity. If a type of investment is added to California State Code 53600, it will not be added to the City's Authorized Investment List until this policy is amended and approved by the City Council. If a type of investment permitted by the City should be removed from California Government Code 53600, it will be deemed concurrently removed from the City's Authorized Investment List, but existing holdings may be held until they mature if it is in the best interest of the City and recommended by the Treasurer and approved by the City Manager or Finance Director.

Credit criteria listed in this Policy refers to the credit rating of the issuing organization at the time the security is purchased. The City may from time to time be invested in a security whose rating is downgraded. In the event a rating drops below the minimum allowed by this Policy, the Treasurer will recommend an appropriate plan of action to the City Manager and Finance Director no less frequently than quarterly.



## **Master Repurchase Agreement**

The City may invest (Government Code Section 53601(i)) in overnight and term repurchase agreements with Primary Dealers of the Federal Reserve Bank of New York rated "AA" or better by Moody's Investors Service or Standard & Poor's Corporation with which the City has entered into a Master Repurchase Agreement.

All collateral used to secure this type of transaction is to be delivered to a third party prior to release of funds. The third party will have an account in the name of the City of Hermosa Beach. The market value of securities used as collateral for repurchase agreements shall be monitored on a daily basis and will not be permitted to fall below a minimum of 102 percent of the value of the repurchase agreement. Collateral shall not have maturities in excess of five years. The right of substitution will be granted, provided that permissible collateral is maintained.

In order to conform with provisions of the Federal Bankruptcy Code which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be securities that are direct obligations of and guaranteed by the U.S. Government and Agency securities as permitted under this policy. The City will maintain a first perfected security interest in the securities subject to the repurchase agreement and shall have a contractual right to liquidation of purchased securities upon the bankruptcy, insolvency or other default of the counter party.

## **Investment Pools**

A thorough investigation of any investment pool, money market or mutual fund is required prior to investing and on a continual basis. The purpose of this investigation is to determine the suitability of a pool or fund and evaluate the risk of placing funds with that pool or fund. The investigation will, at a minimum, obtain the following information:

- (a) A description of interest calculations and how it is distributed, and how gains and losses are distributed.
- (b) A description of how securities are safeguarded (including the settlement process) and how often the securities are marked to market and how often an audit is conducted.
- (c) A description of who may invest in the program, how often, what size deposits and withdrawals are permitted.
- (d) A schedule for receiving statements and portfolio listings.
- (e) Does the pool/fund maintain a reserve or retain earnings or is all income after expenses distributed to participants?
- (f) A fee schedule that discloses when and how fees are assessed.
- (g) Determining if the pool or fund is eligible for bond proceeds and/or will it accept such proceeds.



### **Internal Control and Review**

This Investment Policy shall be reviewed periodically by the City Manager and Finance Director. Modifications or changes to this policy are to be recommended by the City Manager and Finance Director for approval by the City Council. The City Treasurer shall submit this Investment Policy annually to the City Council for review and approval.

The external auditors shall review annually the investments and general activities associated with the investment program to ensure compliance with this Investment Policy. This review will provide internal control by assuring compliance with policies and procedures established by this Investment Policy.

### **Performance Standards**

The investment portfolio will be managed in accordance with the standards established within this Investment Policy and will attempt to achieve a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints, cash flow needs and maturities of the investments. The basis to determine whether market yields are being achieved shall be the total return of the portfolio.

### **Reporting**

The City Treasurer shall submit an investment report to the City Council every 30 days, and shall include information about the investment of all funds in the custody of the City. This report shall include all items listed in Section 53646(b) of the Government Code. These reports will include the following information about the investment of all funds:

- (a) A list of individual securities held at the end of the reporting period.
- (b) Unrealized gains or losses resulting from amortization or accretion of principal versus market value changes by listing the cost and market value of securities owned by the City.
- (c) Dollar weighted yield to maturity of the City's investments.
- (d) Maturity schedule by type, of each of the City's investments.
- (e) Market value, book value, par value and cost basis of all investments.



by a department, board, agency or authority of such a local agency. (Legal Authority-Government Code Sections 36301 (d) and 53635 (d)).

(e) **Bankers Acceptances**

The City may invest in Bankers Acceptances limited to banks rated a minimum of "A" by Moody's Investors Service and Standard & Poor's Corporation. The maximum investment maturity will be restricted to 270 days as per Government Code Section 53601(f). (Legal Authority-Government Code Sections 36301 (b) and 53635 (f)).

(f) **Commercial Paper**

Commercial Paper is issued by leading industrial and financial firms to raise working capital. The City shall only buy Commercial Paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided for by Moody's Investor Service, Inc. or Standard and Poor's Corporation (A1/P1 or higher). Eligible paper shall also be further limited to issuing corporations that are organized and operating within the United States and having total assets in excess of five hundred million dollars (\$500,000,000) and having an "AA" or higher rating for the issuer's debt, other than commercial paper, if any, as provided for by Moody's Investors Service, Inc., or Standard and Poor's Corporation.

(g) **Negotiable Certificates of Deposit**

Investments are limited to deposits issued by a nationally or state-chartered bank or a state or federal association or by a federally or state-licensed branch of a foreign bank (Government Code Section 53601(h)) with a minimum rating of "AA" as assigned by Moody's Investors Service and Standard and Poor's Corporation. Negotiable Certificates of Deposit shall not exceed 40 percent of the City's surplus money which may be invested pursuant to this policy. As per section 53638 of the California Government Code, any deposit shall not exceed the total paid-up capital and surplus of any depository bank, nor shall the deposit exceed the total net worth of any institution. Maximum investment maturity is restricted to five years. Investments in Negotiable Certificates of Deposit prohibited by Government Code Section 53635 (h) shall not be made. (Legal Authority – Government Code Section 53601 (h) and 53635 (h)).

(h) **Time Certificates of Deposit**

The City may invest in collateralized certificates of deposits issued by commercial banks and savings and loans (Government Code Sections 53601(h) and 53635(h)). A written depository contract is required with all institutions that hold City deposits. Securities placed in a collateral pool must provide coverage for at least 110 percent of all deposits that are placed in the institution. Acceptable pooled collateral is governed by California Government Code Section 53651. Real estate mortgages are not considered acceptable collateral by the City, even though they are permitted in Government Code Section 53651(m). All banks are required to provide the City with a regular statement of pooled



## Appendix "B" Glossary of Investment Terms

*Because the Investment Policy of the City of Hermosa Beach is available to the public, related terminology is included as a part of this policy.*

**Accrued Interest** - Interest earned but not yet received.

**Active Deposits** - Funds that are immediately required for disbursement.

**Amortization** - An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.

**Asked Price** - The price a broker dealer offers to sell securities.

**Average Life** - The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

**Banker's Acceptance** - A high quality, short-term money market instrument used to finance international trade. There has never been an instance of a failure to pay a banker's acceptance in full at its maturity date.

**Basis Point** - One basis point is one hundredth of one percent (.01% or 0.0001).

**Bid Price** - The price a broker dealer offers to purchase securities.

**Bond** - A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

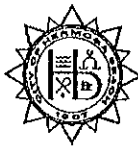
**Broker** - Someone who brings buyers and sellers together and is compensated for his/her service.

**Callable Bond** - A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

**Call Price** - The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

**Call Risk** - The risk to a bondholder that a bond may be redeemed prior to maturity.

**Cash Sale/Purchase** - A transaction that calls for delivery and payment of securities on the same day that the transaction is initiated.



**Federal Reserve System** - The central bank of the U.S. which consists of a seven member Board of Governors, 12 regional banks and 5,700 commercial banks that are members.

**Freddie Mac** - Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. sponsored corporation.

**Ginnie Mae** - Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the U.S. Government.

**Government Accounting Standards Board (GASB)** - A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

**Government Securities** - An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, and Bonds."

**Inactive Deposits (Idle Funds)** - Funds not immediately needed for disbursement.

**Interest Rate** - The annual yield earned on an investment, expressed as a percentage.

**Interest Rate Risk** - The risk associated with declines or rises in interest rates that cause an investment in a fixed-income security to increase or decrease in value.

**Investment Policy** - A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

**Investment-grade Obligations** - An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating City.

**Liquidity** - An asset that can easily and rapidly be converted into cash without significant loss of value.

**Local Agency Investment Fund (LAIF)** - A pooled investment vehicle for local agencies in California sponsored by the State of California and administered by the State Treasurer.

**Los Angeles County Pooled Investment Fund (LACPIF)** The Treasurer and Tax Collector of Los Angeles County has delegated the authority to invest funds on deposit in the County Treasury which are held for local agencies including school districts community colleges, and discretionary depositors such as cities within the county.





**Principal** - The face value or par value of a debt instrument, or the amount of capital invested in a given security.

**Purchase Date** - The date in which a security is purchased for settlement on that or a later date.

**Rate of Return** - The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

**Risk** - Degree of uncertainty of return on an asset.

**Safekeeping** - Holding of assets (e.g., securities) by a financial institution

**Safekeeping Service** - Offers storage and protection of assets provided by an institution serving as an agent.

**Sallie Mae** - Trade name for the Student Loan Marketing Association (SLMA), a U.S. sponsored corporation.

**Securities and Exchange Commission (SEC)** - The federal District responsible for supervising and regulating the securities industry.

**Settlement Date** - The date on which a trade is cleared by delivery of securities against funds.

**Standard and Poor's Corporation (S&P)** - One of the three best-known rating agencies in the United States, the others being Moody's Investment Service, Inc. and Fitch IBCA, Inc. (Fitch).

**Tax and Revenue Anticipation Notes (TRANS)** - Notes issued in anticipation of receiving tax proceeds or other revenues at a future date.

**Time Certificate of Deposit**-A non-negotiable certificate of deposit that cannot be sold prior to maturity.

**Total Return** - The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period.  $(\text{Price Appreciation}) + (\text{Dividends paid}) + (\text{Capital gains}) = \text{Total Return}$

**Treasury Bonds** (also known as **T-bonds**) - U.S. Treasury long-term obligations, direct obligations of the U.S. Government, generally mature in 10 years or more.

April 9, 2013

## RECOMMENDATIONS FROM THE CITY TREASURER'S OFFICE IN SUPPORT OF RESOLUTION 12-6815

The City Treasurer proceeded to reach out to 15 Broker Dealers who have been commonly used by other cities with a questionnaire. This questionnaire required answers to such things but not limited to:

1. Their FINRA licensing status.
2. The FINRA licensing status of the individuals who we might in contact with.
3. The Net Capitalization level of the firm
4. The ownership status
5. Cities they do business with
6. The type of products they were selling,
7. Their research capabilities
8. Back up personnel,
9. Confirmation in writing that they understood the current HB Investment Policy in place.
10. Have they ever been censored or punished by a State or Federal Regulatory Agency

Fifteen Firms responded and the subsequent answers to the questionnaires can be viewed on line in detail.

### THE CITY TREASURER'S RECOMMENDATIONS

It was my opinion, after reviewing the questionnaires, that all fifteen resources were qualified to trade with. Having said that, the city can only make use of a few, considering the amount we could be investing at any one time. Without any formal study, I would estimate we are in the lower quartile of total fund size considering all the California Agencies, which invest. A recent poll taken at the last workshop of 60 fiduciaries, we were 55<sup>th</sup> in rank.

### THE TREASURERS RECOMMENDATIONS

#### WEDBUSH SECURITIES

The firm has an excellent grasp on Corporates and agencies. The City has been doing business with this firm for many years

#### WELLS FARGO SECURITIES

Although we have probably done the least amount of business with, this firm they seem to have a wider bandwidth of offerings in all 53601 categories which agencies are allowed to invest in.

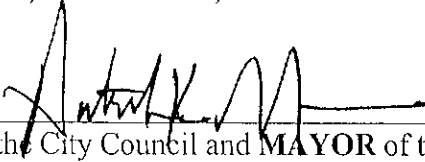


RESOLUTION NO. 13-6846

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF HERMOSA BEACH, CALIFORNIA, ACKNOWLEDGING THE RECEIPT, FILING AND APPROVAL OF THE REVISED ANNUAL STATEMENT OF INVESTMENT POLICY

SECTION 1. The Investment Policy attached hereto and incorporated herein by reference is hereby adopted as the investment policy for the City of Hermosa Beach.

PASSED, APPROVED, and ADOPTED this 14<sup>th</sup> day of May 2013.

  
\_\_\_\_\_  
PRESIDENT of the City Council and MAYOR of the City of Hermosa Beach, California

ATTEST:

APPROVED AS TO FORM:

  
\_\_\_\_\_  
City Clerk

  
\_\_\_\_\_  
City Attorney

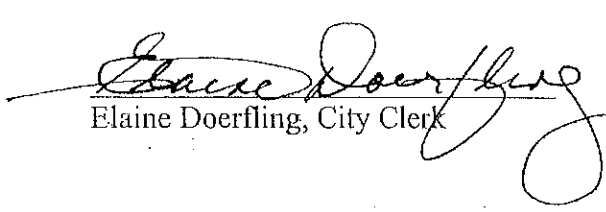
STATE OF CALIFORNIA  
COUNTY OF LOS ANGELES  
CITY OF HERMOSA BEACH

I, Elaine Doerfling, City Clerk of the City of Hermosa Beach, California, do hereby certify that the foregoing Resolution No. 13-6846 was duly and regularly passed, approved and adopted by the City Council of the City of Hermosa Beach at a Regular Meeting of said Council at the regular place thereof on May 14, 2013.

The vote was as follows:

AYES: DiVirgilio, Fishman, Tucker, Mayor Bobko  
NOES: Duclos  
ABSTAIN: None  
ABSENT: None

Dated: May 14, 2013

  
Elaine Doerfling, City Clerk