



1.0 Policy

The City of Pismo Beach ("City") shall invest public funds in such a manner as to comply with state and local laws; ensure prudent money management; provide for daily cash flow requirements; and meet the objectives of the Policy, in priority order of Safety, Liquidity, and Return on investment.

California Government Code Section 53646 (a)(2) states that the City Treasurer may annually submit an investment policy to the City Council for consideration at a public meeting. This investment policy conforms to all pertinent existing laws of the State of California, including California Government Code Sections 53600 *et seq.*

2.0 Scope

This investment policy applies to all financial assets and investment activities of the City. Investments for the City will be made on all funds identified in the Comprehensive Annual Financial Report (CAFR) on a pooled basis, including the General Fund, Special Revenue Funds, Capital Project Funds, Debt Service Funds, Enterprise Funds, Internal Service Funds, Fiduciary Funds, and any funds subsequently created.

This investment policy does not apply to Bond Proceeds or Deferred Compensation Funds. California Government Code Section 5922(d) authorizes proceeds of bonds to be invested in accordance with related offering documentation. These Code Sections recognize the unique needs and objectives of such proceeds. Likewise, Deferred Compensation Plans are covered under California Government Code.

3.0 Prudence

The City Treasurer is authorized to make investment decisions on behalf of the City investing public funds subject to the prudent investment standard. The Prudent Investor Standard (California Government Code Section 53600.3) 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]". The standard of prudence to be used by investment officials shall be applied in the context of managing an overall portfolio.



4.0 Objectives

The primary objectives, in priority order, of the City's investment activities (per CA Govt Code Section 53600.5) shall be:

- 4.1. Safety: Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the City will diversify its investments by investing funds among a variety of securities with independent returns.
- 4.2. Liquidity: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.
- 4.3. Return on Investments: The City's investment portfolio shall have the objective of attaining a comparative performance measurement or an acceptable rate of return throughout budgetary and economic cycles. These measurements should be commensurate with the City's investment risk constraints identified in the Investment Policy and the cash flow characteristics of the portfolio.

5.0 Delegation of Authority

California Government Code Section 53601 states that the legislative body of a local agency (i.e., the City Council) is authorized to invest surplus moneys as specified in that code section. In accordance with California Government Code Section 53607, this authority may be delegated to the City Treasurer for a one-year period by the City Council. Subject to review, the City Council may renew the delegation of authority under this code section each year.

The Pismo Beach City Council delegates its authority to invest or reinvest City funds to the City Treasurer, who is also the Administrative Services Director. The City Treasurer will be responsible for all investment transactions and shall establish a system of controls to regulate the activities of City officials involved in any aspect of the investment program. In the case of the City Treasurer's absence, the City Council delegates investment authority in the following order to (1) Finance Manager and (2) City Manager.

Duties and Responsibilities

- 5.1. *City Treasurer (Administrative Services Director)*: Charged with responsibility for all public funds and securities belonging to or under the control of the City, and for the deposit and investment of those funds in accordance with the principles of sound treasury management and in accordance with the applicable laws, ordinances, and policies adopted by the City.



- 5.2. *Administrative Services Department Staff:* Charged with recording investment activity in the accounting records and with verifying the Treasurer's records with broker confirmations, bank statements, and safekeeping records.
- 5.3. *Finance Manager:* Charged with responsibility (in the absence of the Treasurer) for all public funds and securities belonging to or under the control of the City and for their deposit. Duties related to investment activities shall be performed by staff other than those responsible for the accounting of those investments.
- 5.4. *City Council:* May delegate to the City Treasurer for a one-year period the authority to invest the City's funds. Subject to review, the City Council may renew the delegation of this authority each year. The City Council may also annually consider and approve a written Statement of Investment Policy at a public meeting. Any change to the Investment Policy at any time shall also be considered by the City Council at a public meeting.

6.0 Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officers shall disclose any material financial interest in financial institutions that conduct business with this City, and they shall further disclose any large personal financial / investment positions that could be related to the performance of the City's portfolio.



7.0 Authorized Financial Dealers and Institutions

- 7.1. The Treasurer will maintain a list of approved financial institutions authorized to provide investment services to the City in the State of California. A competitive bid process, when practical, will be used to place all investment purchases, other than those that are classified as “new issue” securities. On an annual basis, the Treasurer shall recommend a list of at least two broker/dealers who are authorized to provide investment services. The list shall be approved by the City Council. All broker/dealers who wish to be considered for the list must meet the following minimum requirements:
- 7.1.a Must be a “primary” or regional dealer that qualifies under the Securities and Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule)
- 7.1.b Must be experienced in public agency investing and investment products and familiar with the California Government Code as related to investments for local governmental agencies
- 7.1.c Must have been in business for at least three years
- 7.1.d Must supply the Treasurer with the following:
- current audited financial statements,
 - proof of National Association of Security Dealers certification,
 - trading resolution,
 - depository contracts,
 - proof of State of California registration,
 - completed broker/dealer questionnaire, and
 - certification of having read the City’s investment policy.
- 7.1.e The Treasurer shall consider the creditworthiness of institutions.
- 7.2. If a third party investment advisor is authorized to conduct investment transactions on the City’s behalf, the investment advisor may use their own list of approved broker/dealers and financial institutions. The investment advisor’s approved list must be made available to the City upon request.
- 7.3. No public deposit shall be made except in a qualified public depository as established by the established state laws.
- 7.4. An annual review of the financial condition and registrations of qualified bidders will be conducted by the Treasurer. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the City invests.



8.0 Authorized and Suitable Investments

California Government Code Section 53601, 53601.6, 53601.8, 53635, 53635.2, 53638 and 53684 include a number of requirements on how and where public money may be invested. The City is empowered by statute to invest in the following types of securities:

Permitted Investments	City Dollar Limit, Maximum Percentage of Portfolio Limit	Maturity Limit
Local Agency Investment Fund (LAIF)	\$50 million, 100%	None
Agency Issues (Government Sponsored Enterprise, or GSE, instruments)	50%	5 years
Negotiable Certificates of Deposits	30%	5 years
Public Funds Checking or Savings Account	100%	None
Shares of Beneficial Interest (i.e., money market mutual funds)	20% (10% in any one mutual fund)	None
U.S. Treasury Issues	100%	5 years
State of California Issues	30%	5 years
Issues of Entities outside of California	30%	5 years
Issues of Other California entities	30%	5 years
City of Pismo Beach Bonds	100%	5 years
Corporate Bonds	30%, minimum rating S&P A+, Moody's A1, Fitch A+	5 years
Commercial Paper	25% or portfolio; 10% per issuer; Rating of 'A1/P1' or higher from S&P and Moody's	270 days

Any State of California legislative action that further restricts allowable maturities, investment types or percentage allocations will be incorporated into the City's Policy and supersedes any and all previous applicable language. If the City is holding an investment that is subsequently prohibited by a legislative change, the City may hold that investment, if it is deemed prudent by the Investment Officer, until the maturity date to avoid an unnecessary loss.

9.0 Review of Investment Portfolio

The securities held by the City must be in compliance with Section 9.0 Authorized and Suitable Investments at the time of purchase. Because some securities may not comply with Section 9.0 Authorized and Suitable Investments subsequent to the date of purchase, the Treasurer shall at least quarterly review the portfolio to identify those securities that do not comply. The Treasurer shall establish procedures to report to the City Council, major and critical incidences of noncompliance identified through the review of the portfolio.



10.0 Investment Pools/ Mutual Funds

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed which will answer the following general questions:

- 10.1. A description of eligible investment securities, and a written statement of investment policy and objectives.
- 10.2. A description of interest calculations and how it is distributed, and how gains and losses are treated.
- 10.3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- 10.4. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- 10.5. A schedule for receiving statements and portfolio listings
- 10.6. A description of how the pool/fund maintain reserves, retained earnings, etc. or is all income after expenses distributed to participants
- 10.7. A fee schedule that discloses when and how fees are assessed.
- 10.8. The eligibility of the pool/fund to invest in bond proceeds and a description of its practices.

11.0 Collateralization

Collateralization is required on certificates of deposits and sweep checking accounts. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be (110%) of market value of principal and accrued interest.

The City chooses to limit collateral to the following: certificates of deposits, sweep checking accounts, and agency issues. Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained.

The Treasurer, at her discretion, may waive the collateral requirements for certificates of deposits up to \$250,000 which are fully insured by the Federal Deposit Insurance Corporation.

12.0 Safekeeping and Custody

All securities will be received and delivered on a delivery versus payment (DVP) basis. Securities will be held by a third party custodian/safekeeping account designated by the Treasurer and evidenced by safekeeping receipts. Said securities shall be held in a manner that establishes the government entity's right of ownership.

**13.0 Diversification**

The City recognizes that investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. To minimize the City's exposure to these types of risk, the portfolio should be diversified among several types of institutions, instruments, and maturities. The Treasurer shall minimize default risk by prudently selecting only instruments and institutions, which at the time of placement have been evaluated for their financial viability and compliance with this policy. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio. Risk shall also be managed by subscribing to a portfolio management philosophy that helps to control market and interest rate risk by matching investments with cash flow requirements. See section 9.0 Authorized and Suitable Investments, which lists the City's maximum percentage limits and promotes a diverse portfolio.

14.0 Maximum Maturities

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a specific cash flow and approved by City Council, the City will not directly invest in securities maturing more than 5 years from the date of purchase.

15.0 Internal Controls

The Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

- Proper documentation obtained from confirmation and cash disbursement wire transfers is required for each investment transaction.
- Timely bank reconciliation is conducted to ensure proper handling of all transactions.
- The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by the Administrative Services Department on a monthly and quarterly basis.

16.0 Performance Standards

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with investment risk constraints and cash flow needs.



The City's basic investment strategy is to buy and hold investments until maturity. However, the Treasurer may sell a security due to adverse changes in credit risk or due to unexpected cash flow needs.

The Market Yield benchmark used by the Treasurer is to determine whether market yields are being achieved and shall be the rates of return from the following combination of indices: Local Agency Investment Fund (LAIF) and 3-month, 6-month, and 1-year Treasury Bills.

17.0 Investment Reporting

In accordance with California Government Code Section 53607, the Treasurer shall file a monthly investment report with the City Clerk who will place the report on the agenda of the next regular City Council meeting. The Treasurer shall review and render monthly and quarterly investment portfolio reports to the City Manager and City Council.

- The monthly report shall include an accounting of all receipts, disbursements, and fund balances.
- The quarterly reports shall include the book and market value of the cash investment, the classification of the investment, the name of the institution or entity, the rate of interest, and the maturity dates for all securities.
- The quarterly report will include a statement of compliance of the portfolio with the investment policy or an explanation as to why the portfolio is not in compliance per Government Code 53646(b)(2).
- The quarterly report will include a statement on availability of funds to meet its obligations within the next six months per Government Code 53646(b)(3).

18.0 Investment Policy Adoption

The City's Investment Policy shall be adopted by resolution annually by the City Council. The policy shall be reviewed annually by the City Council and any modifications made thereto must be approved by the City Council.

19.0 Glossary

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

ASK PRICE: The price at which securities are offered.

BEAR MARKET: A period of generally pessimistic attitudes and declining market prices.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID PRICE: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.



BOND: An interest-bearing security issued by a corporation, quasi-governmental agency or other body, which can be executed through a bank or trust company. A bond is a form of debt with an interest rate, maturity, and face value, and is usually secured by specific assets. Most bonds have a maturity of greater than one year, and generally pay interest semi-annually.

BOND RATING: The classification of a bond's investment quality.

BOOK VALUE: The amount at which a security is carried on the books of the holder or issuer. The book value is often the cost, plus or minus amortization, and may differ significantly from the market value.

BROKER: A broker brings buyers and sellers together for a commission.

BULL MARKET: A period of generally optimistic attitudes and increasing market prices.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMMERCIAL PAPER: Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations, and other borrowers to investors with temporarily idle cash. Such instruments are unsecured and usually discounted, although some are interest-bearing.

COMMISSION: The broker's or agent's fee for purchasing or selling securities for a client.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official financial annual report of the City. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.



DEBENTURE: A bond secured only by the general credit of the issuer.

DEFAULT RISK: This is the risk that a company or individual will be unable to make the required payments on their obligation. Standard measurement tools to gauge default risk include credit ratings by Nationally Recognized Statistical Rating Organizations (NRSROs).

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

FEDERAL RESERVE SYSTEM: The central bank of the United States which consists of a seven member Board of Governors, 12 regional banks and approximately 5,700 commercial banks that are members.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued a discount and redeemed at maturity for full face value (e.g., U.S. Treasury Bills).

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

DURATION: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per entity.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set



Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FISCAL YEAR: An accounting or tax period comprising any twelve month period. The City's fiscal year begins on July 1.

FULL FAITH AND CREDIT: The unconditional guarantee of the United States government backing a debt for repayment.

INTEREST RATE: The interest payable each year on borrowed funds, expressed as a percentage of the principal.

INVESTMENT: Use of capital to create more money, either through income-producing vehicles or through more risk-oriented ventures designed to result in capital gains.

INVESTMENT PORTFOLIO: A collection of securities held by a bank, individual, institution, or government agency for investment purposes.

LAIF: trade name for the California State Local Agency Investment Fund. Chapter 730, Statutes of 1976 of the State of California, established the LAIF. The LAIF enables local governmental agencies to remit money not required for immediate needs to the State Treasurer for the purpose of investment. In order to derive the maximum rate of return possible, the State Treasurer has elected to invest these monies with State monies as a part of the Pooled Money Investment Account. Each local governmental unit has the exclusive determination of the length of time its money will be on deposit with the State Treasurer. At the end of each calendar quarter, all earnings derived from investments are distributed by the State respective amounts deposited in the LAIF and the length of time such amounts remained therein. Prior to the distribution, the State's cost of administering the program are deducted from the earnings. The California Government Code states that monies placed for deposit in LAIF are in trust in the custody of the State Treasurer and cannot be borrowed or be withheld from the City. Further, the right of the City to withdraw its deposited money from the LAIF upon demand may not be altered, impaired, or denied in any way by any State official or agency based upon the State's failure to adopted a budget by July 1 of each new fiscal year.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

MARKET RISK: This is the risk that the value of a security will raise or decline as a result of changes in market conditions.

MARKET VALUE: the price at which a security is currently being sold in the market.



MATURITY: the date that the principal or stated value of debt instrument becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

MUTUAL FUND: An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by Securities and Exchange Commission (SEC) disclosure guidelines.

NEGOTIABLE CERTIFICATES OF DEPOSIT: Fixed deposit certificate that may be negotiated (traded) to a third party. The institution issuing the certificate promises to pay face value plus accrued interest at maturity or semi-annually if maturity is over one year.

NRSRO: This acronym stands for Nationally Recognized Statistical Rating Organization, which is a credit rating agency that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes. NRSROs include Standard & Poor's, Moody's, and Fitch ratings.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: The collection of securities held by an individual or institution. The combined holding of more than one stock, bond, commodity, real estate investment, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

PRINCIPAL: The face or par value of an instrument.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.



QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: 1) The yield which can be attained on a security based on its purchase price or its current market price. 2) Income earned on an investment, expressed as a percentage of the cost of the investment.

RATING: The designation used by investors' services to rate the quality of a security's creditworthiness. Moody's ratings range from the highest Aaa, down through Aa, A, Bbb, Ba, B, etc. while Standard and Poor's rating range from the highest AAA, down through AA, A, BBB, BB, B, etc.

REFINANCING: Rolling over the principal on securities that have reached maturity or replacing them with the sale of new issues. The object may be to save interest costs or to extend the maturity of the loan.

SAFEKEEPING: A service offered to customers for a fee, where securities are held in the vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15(C)3-1: See Uniform Net Capital Rule.

SECURITIES: investment instruments such as bonds, stocks and other instruments of indebtedness or equity.

SPREAD: The difference between two figures or percentages. For example, it may be the difference between the bid and asked prices of a quote, or between the amount paid when bought and the amount received when sold.

TREASURY BILLS (T-BILL): U.S. Treasury Bills are short-term, direct obligations of the U.S. Government issued with original maturities of 13 weeks, 26 weeks and 52 weeks; sold in minimum amounts of \$10,000 in multiples of \$5,000 above the minimum. Treasury Bills are issued in book entry form only and are sold on a discount basis.

TRUSTEE: A bank designated as the custodian of funds and the official representative for bondholders.



UNDERWRITER: A dealer bank or financial institution which arranges for the sale and distribution of a large batch of securities and assumes the responsibility for paying the net purchase price.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

U.S. GOVERNMENT AGENCIES: Instruments issued by various U.S. government agencies most of which are secured only by the credit worthiness of the particular agency.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.