City of Bell
Agenda Report

AGENDA ITEM 14

DATE: 15 January 2015

TO: Mayor and Members of the City Council

FROM: Josh Betta, Finance Director

APPROVED BY: Doug Willmore, City Manager

SUBJECT: **Resolution Adopting 2015 Statement of Investment Policy**

Recommendation:

Adopt resolution approving 2015 Statement of Investment Policy.

Background:

California Government Code Section 53646 (a) (2) declares that the treasurer or chief fiscal officer "may annually render to the legislative body a statement of investment policy, which the legislative body of the local agency shall consider at a public meeting. Any change in the Policy shall also be considered by the legislative body "

Annual review is also a requirement of the City of Bell's current Statement of Investment Policy. The City Charter, however, does not reference use of an investment policy.

Discussion:

The recommended 2015 Statement of Investment Policy is unchanged in its entirety from the 2014 Statement of Investment Policy.

Each is derived from a model investment policy published by the Association of Public Treasurers of the United States and Canada. As such, the Policy brings together all relevant elements of proven "best practices."

Investment Policy Objectives:

The objectives, in order of priority, are: safety of principal, liquidity and return on investment. These are very conserative objectives common to local government.

Authorized Investments:

The City and Successor Agency investments are currently 100% investment in the California Local Agency Investment Fund as managed by the State Treasurer.

The Policy, nonetheless, permits the following investments:

- US Government securities;
- US Government agency securities;
- Bonds
- Time deposits and CDs

- Negotiable CDs
- Bankers acceptances
- Commercial paper
- State of Calfornia Local Agency Investment Fund (LAIF)
- Mutual funds
- Investment pools (other than LAIF)

Internal Controls:

Section 13 of the Policy establishes that annual review will be conducted by the City's external auditor.

Attachments:

1. Recommended 2015 Statement of Investment Policy
2. Resolution Adopting 2015 Investment Policy
3. 2014 Statement of Investment Policy

Recommended 2015 Statement of Investment Policy

CITY OF BELL

2015 STATEMENT OF INVESTMENT POLICY

INTRODUCTION

The City Council of the City of Bell (the "City") recognizes its responsibility to prudently direct the investment of the City's funds on behalf of the City's existing and future residents. The City Council further recognizes that the City's investment assets are essential to the City's financial strength, the effective implementation of long range financial plans, and ultimately its ability to respond to the needs of the community.

The investment policies and practices of the City of Bell take into consideration that California statues authorize the City of Bell to finance acquisition or construction of various projects and capital assets through the issuance and sale of municipal securities, including but not limited to general obligation bonds and revenue bonds. Depending on the type and the authority for the issuance and sale of the bond, the City's General Fund and/or certain sources of city revenue may be pledged as security for the bonds. The bonding and the resulting security interest in city funds and revenue may supercede all or portions of this Policy, but not the requirements of the California Government Code.

This Statement sets forth policies which shall govern the investment of the City's funds. It will be used by the City's Treasurer, the Director of Finance and other City officials and staff, as well as all other third-party providers of investment or investment-related services. Its purpose is to direct the prudent investment and protection of the City's funds and investment portfolio.

1. POLICY

It is the policy of the City to invest public funds in a manner which will provide the highest investment return with maximum security while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of public funds.

2. SCOPE

This Investment Policy applies to all financial assets of the City of Bell. The following funds are covered by this Investment Policy and are accounted for in the City's Comprehensive Annual Financial Report:

A) General Fund
B) Special Revenue Funds
C) Debt Service Funds
D) Capital Project Funds
E) Enterprise Funds
F) Internal Services Funds

G) Trust and Agency Funds
H) Any new funds created by the City Council, unless specifically exempted

The investment of bond proceeds will be governed by the permitted investment section of bond documents. If the bond documents are silent as to the investment of the proceeds, the proceeds will be invested in accordance with this Policy.

3. PRUDENCE

The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investments shall be made with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting 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.

Investment officers acting in accordance with written procedures and the investment policy and exercising due 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.

4. OBJECTIVE

The objective of the investment portfolio is to meet the short- and long-term cash flow demands of the City. To achieve this objective, the portfolio will be structured to provide safety of principal and liquidity, while then providing a return on investments.

4.1. Safety of Principal

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 offering diversified returns and approved financial institutions. The City shall seek to preserve principal by mitigating the two types of risk in order of importance: credit risk and market risk.

a. **Credit Risk** Credit risk, defined as the risk of loss due to failure of an issuer of a security, shall be mitigated by purchasing U.S. Treasuries or high grade securities. All investments beyond Treasury securities will be diversified so that the failure of any one issuer would not unduly harm the City's cash flow.

b. **Market or Interest Rate Risk** Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated by structuring the Funds so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and by investing operating funds primarily in shorter-term securities. The cash flow is updated on a daily basis and will be considered prior to the investment of securities, which will reduce the necessity to sell investments for liquidity purposes. Long-term securities shall not be purchased for the sole purpose of short-term speculation. Securities shall not be sold prior to maturity with the following exceptions, 1) a security whose credit declines or is expected to decline may be sold IF there is a reasonable expectation that the prompt payment of principal and interest becomes unlikely. A temporary or modest decline in a securities; credit rating should not in and of itself trigger a liquidation , 2) a security swap would improve the quality, yield, or target duration in the portfolio, or 3) liquidity needs of the portfolio require that the security be sold. The weighted average maturity of the funds will be limited to three years or less. Purchases of investments will be restricted to securities with a final stated maturity not to exceed five (5) years, unless the City Council has granted express authority to make the investment with a maturity in excess of five years, either specifically or as a part of an investment program approved by the City Council no less than three months prior to the investment.

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 be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

5. DELEGATION OF AUTHORITY

Authority to manage the City's investment program is derived from the Bell City Charter, Section 705 (b) CITY TREASURER, POWERS AND DUTIES.

The City of Bell delegates investment authority to the City Treasurer or designee. It further authorizes the City Treasurer to invest or deposit the City's funds in accordance with California Government Code Sections 53600 and 53630 et seq. and all related State and Federal laws.

The responsibility for establishing, monitoring and maintaining a strong system of investment controls and directing an independent audit of the investment function is delegated to the City Manager. The City Manager's designee(s) may assist in carrying out these functions.

The City Council's primary responsibilities over the investment function include establishing investment policies, annually reviewing such policies, reviewing monthly investment reports issued by the Treasurer and authorizing any deviations from the City's Investment Policy.

6. ETHICS AND CONFLICTS OF INTEREST

The City Treasurer and other 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. The City Treasurer and investment officials shall disclose to the City Manager any material interests in financial institutions with which they conduct business within their jurisdiction. They shall further disclose any large personal financial/investment positions that could be related to the performance of the City's investment portfolio. During the course of the year, if there is an event subject to disclosure that could impair the ability of the City Treasurer or investment employees to make impartial decisions, the City Council will be notified in writing within 10 days of the event.

7. AUTHORIZED DEALERS AND FINANCIAL INSTITUTIONS

The purchase by the City of any authorized investment, not purchased directly from the issuer, shall be purchased either from an institution licensed by the state as a broker-dealer, or from a member of a federally regulated securities exchange, from a national or state-chartered bank, from a savings association or federal association or from a brokerage firm designated as a primary government dealer by the Federal Reserve bank. The Treasurer will maintain a list of financial institutions authorized to provide investment services. No public deposit shall be made except in a qualified public depository as established by state laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the City Treasurer with the following: Audited Financial Statements, proof of Financial Industry Regulatory Authority (FINRA) registration, trading resolution, proof of California registration and certification of having read this City's investment policy.

8. AUTHORIZED AND SUITABLE INVESTMENTS

The City is empowered by statute to invest in the following types of securities: investments set forth in this section are authorized investments pursuant to Section 53601 of the Government Code and are authorized investments for the City subject, however, to the prohibitions set forth in Section 9 of this Investment Policy.

A. Securities of the U.S. Government

U.S. Treasury Bills – issued by the U.S. Treasury and are available in maturities out to one year. They are non-interest bearing and sold on a discount basis. The face amount is paid at maturity.

U.S. Treasury Notes – issued by the U.S. Treasury with maturities from two to ten years. They are issued in coupon form and many issues are also available in registered form. Interest is payable at six month intervals until maturity.

U.S. Treasury Bonds – issued by the U.S. Treasury with maturities of ten years to thirty years. The City may purchase the interest and/or principal of a U.S. Treasury Bond. A principal only instrument is commonly called a "stripped" or "zero" coupon. Stripped coupons are sold at a discount basis. The face amount is paid at maturity.

B. Securities of U.S. Government Agencies

The capital of U.S. government agencies was initially financed by the United States Treasury. But as they have grown and operated profitably over the years, the Treasury's investment has been replaced in a large measure by private capital. At present, obligations of only a few agencies are backed by the full faith and credit of the U.S. Government. The obligations of all the federal agencies described in the following sections are not guaranteed by the U.S. Government with the exception of Government National Mortgage Association (GNMA), but are considered to be investments of the highest quality.

Federal National Mortgage Association – (Fannie Mae) a quasi public corporation created by an act of Congress to assist the home mortgage market by purchasing mortgages insured by the Federal Housing Administration and the Farmers Home Administration, as well as those guaranteed by the Veterans Administration. Fannie Mae issues Notes and Bonds and there is a strong secondary market in these securities. A secondary market means these instruments are actively traded, they are bought and sold daily. Bonds are issued for 15 and 30 year maturities with interest paid semi-annually. Interest is computed on a 30/360 day basis. Notes are issued with maturities of less than one year with interest paid at maturity.

Government National Mortgage Association – (Ginnie Mae) a wholly owned corporation instrumentality of the United States within the Department of Housing and Urban Development. A certificate collateralized by FHA/VA residential mortgages represents a share in a pool of FHA or VA mortgages. Ginnie Mae's are registered securities. Original maturities range from 12 to 30 years with a 7 to 12 year assumed average life. (Assumed average life is due to

prepayments of mortgages). Principal and interest are paid monthly and sent directly from the issuer of the pool, usually a mortgage banker, to the City.

Federal Home Loan Banks – (FHLB) provide credit to member lending institutions such as savings and loan associations, cooperative banks, insurance companies and savings banks. The agency offers bonds in the public market with maturities of 1 to 10 years. These bonds are usually offered on a quarterly basis depending on the current demands of the housing industry. Interest is paid semi-annually on a 30/360 day basis.

Federal Farm Credit Banks – debt instruments issued to meet the financial needs of farmers and the national agricultural industry, these issues enjoy an established secondary market. Discount notes are issued monthly with 6 and 9 month maturities. Longer term debentures (2-5 years) are also issued. Discount notes pay interest at maturity. Debentures pay interest semi-annually on a 30/360 day basis.

Federal Home Loan Mortgage Corporation – (Freddie Macs) A publicly held government-sponsored enterprise created in 1970 pursuant to the Federal Home Loan Mortgage Corporation Act, Title III of the Emergency Home Finance Act of 1970, as amended. Freddie Mac's statutory mission is to provide stability in the secondary market for home mortgages, to respond appropriately to the private capital market and to provide ongoing assistance to the secondary market for home mortgages by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for home mortgage financing. Maturity can be from 1 to 30 years. These loans can be either set at a fixed rate or a variable rate.

C. Bonds

City Bonds – Bonds issued by the city, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the City or by a department, board, agency, or authority of the City.

State Bonds – Registered state warrants or treasury notes or bonds of the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the State or by a department, board, agency, or authority of the State.

Municipal Bonds – Bonds, notes, warrants, or other evidences of indebtness of any local agency within the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

D. Time Deposits and Certificates of Deposit

Time Deposits are placed with commercial banks and savings and loan agencies in California. A time deposit is a receipt for funds deposited in a financial institution for a specified period of time at a specified rate of interest. Deposits up to $250,000 (referred to as Jumbo C.D.'s) per institution are insured by the government. Deposits in excess of the federal deposit insurance limit are required to be collateralized as specified under Government Code Section 53630 et seq. . Purchases of certificates of deposit may not exceed 30 percent of the City's surplus money to be invested. Generally the time is 3 months to 2 years. Denominations can be any agreed upon amount and interest is normally calculated using actual number of days on a 360-day year and paid monthly. An institution must meet the following criteria to be considered by the City:

- The institution must have received a minimum overall satisfactory rating, under the Community Reinvestment Act, for meeting the credit needs of California Communities in its most recent evaluation.

- The institution must maintain a net worth to asset ratio of at least 3% and a positive earnings record.

- The institution must be in compliance with the Financial Institution Reform Act (FIRREA) capital ratio requirements for risk-based, tangible, and core capital.

- The institution must make available a current Federal Deposit Insurance Corporation (FDIC) call report or a Federal Home Loan Bank (FHLB) report. A call report presents the financial condition of the institution to the agency with oversight responsibility of that institution.

E. Negotiable Certificates of Deposit

Eligible paper is 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). Negotiable Certificates of Deposit may not exceed 30% of the City's surplus funds to be invested. Maturities range from 3 months to 2 years and are generally issued in blocks of $1 million, $5 million, $10 million, etc. Interest is paid semi-annually computed on a 30/360 day basis.

F. Bankers Acceptance Notes

Bankers acceptances are short term investments otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers acceptances may not exceed 180 days maturity or 40 percent of the City's surplus money that may be invested pursuant to this section. In addition, no more than 30 percent of the City's surplus funds may be invested in the bankers acceptances of any one commercial bank pursuant to this section.

G. Commercial Paper

Commercial paper is the trade name applied to unsecured promissory notes issued by finance and industrial companies to raise funds on a short term basis. Only commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided for by Moody's Investors Service, Inc., or Standard and Poor's Corporation is allowable. Eligible paper is further limited to issuing corporations that are organized and operating within the United States as a general corporation and having total assets in excess of five hundred million dollars ($500,000,000) and having an "A" 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. Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10 percent of the outstanding paper of an issuing corporation. Purchases of commercial paper may not exceed 25 percent of the City's surplus money that may be invested pursuant to this section.

H. Local Agency Investment Fund demand deposit

The Local Agency Investment Fund (LAIF) was established by the State of California to enable treasurers to place funds in a pool for investment. Each agency is limited to an investment of $50 million per account. The City uses this fund for short term liquidity investment, and yield when rates are declining as funds are available upon demand. Interest is paid quarterly.

I. Mutual Funds

Mutual Funds are limited to the following:

a. Limited Term Government Funds
b. Money Market Funds limited to Treasury obligations (Reverse Repurchase not allowed) with a highest rating from Moody's or Standard & Poors to allow the funds held by the Bond Trustee to be invested. In addition, the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of five hundred million dollars ($500,000,000) and has at least 5 years experience investing in instrument authorized by Government Code Sections 53601.

J. Investment Pools

A thorough investigation of a pool/fund is required prior to the City's investment and on a continual basis. The City currently permits the use of the Local Agency Investment Funds (LAIF). Any additional pool shall provide the following:

- A description of eligible investment securities, and a written statement of investment policy and objectives.

- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often are the securities priced and the program audited.
- A description of who may invest in the program, how often, and what size deposit and withdrawal are allowed
- A schedule for receiving statements and portfolio listings.
- A list of any reserves, retained earnings, etc. utilized by the pool.
- A fee schedule, when and how it is assessed.
- Pool eligibility for bond proceeds and/or pool policy on accepting such proceeds.

9. PROHIBITED INVESTMENTS AND TRANSACTIONS

The City shall be in full compliance with 53601.6 regarding prohibited investments.

- The City shall not invest public monies in financial instruments that are not authorized under this Statement of Investment Policy

- The City shall not engage in securities lending, short selling or other hedging strategies.

- The City shall not invest any funds in inverse floaters, range notes, or interest-only strips that are derived from a pool or mortgages or reverse repurchase agreements.

- The City shall not invest any funds in any security that could result in zero interest accrual if held to maturity.

- The City shall not purchase or sell securities on margin.

- The following types of investments shall not be directly used by the City:
  a. Federal Agency Issues: Guaranteed Small Business Administration (SBA) Notes
  b. Mutual Funds-except those specified in Section 8. (Authorized and Suitable Investments). In addition, the City will allow cash held by Fiscal Agent to invest in Money Market Funds limited to Treasury obligations (Reverse Repurchase Agreements not allowed) with a highest rating from Moody's or Standard & Poor's
  c. Medium Term Corporate Notes
  d. Reverse Repurchase Agreements

It is acknowledged that investment pools in which the City invests may invest funds in the securities set forth in this subdivision.

10. SAFEKEEPING AND CUSTODY

All security transactions entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodial designated by the Treasurer and evidenced by safekeeping receipts. The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) LAIF, (ii) other permitted investment pools, and (iii) money market mutual funds, since the purchased securities are not deliverable. Evidence of each these investments will be held by the Treasurer in accordance with internal procedures.

11. DIVERSIFICATION

The City operates its investment pool with many State and self-imposed constraints. It does not buy stocks and it does not speculate. Assets shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities.

The City will diversify its investments by security type, institution and maturity/call dates. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

12. MAXIMUM MATURITIES

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than 5 years from the date of purchase. The City Council expressly permits bond reserve funds to be invested in securities exceeding five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the specified funds.

13. INTERNAL CONTROL

The Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with the City's Investment Policy and for establishing internal controls that are designed to prevent losses due to fraud, negligence, and third-party misrepresentation. Accordingly, the City Treasurer shall establish written procedures for the operation of the City's investment program that are consistent with the provisions of this Investment Policy.

Internal controls deemed most important shall include (but not limited to): avoidance of collusion; separation of duties and administrative controls; separating transaction authority from accounting and record keeping; custodial safekeeping; clear delegation of authority; management approval and review of investment transactions; specific limitations regarding securities losses and remedial action; written confirmation of

telephone transactions; documentation of investment transactions and strategies; and monitoring of results.

14. PERFORMANCE STANDARDS

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

The City's investment strategy is passive. Passive investment portfolio management generally indicates that the Treasurer will purchase an instrument and hold it through to call or maturity, and then reinvest the monies. Although the City's investment strategy is passive, this will not restrict the Treasurer from evaluating when swaps are appropriate or if the sale of an instrument is prudent prior to final maturity. Given this strategy, the basis used by the Treasurer to determine whether market yields are being achieved shall be the Local Agency Investment Funds. (LAIF).

15. REPORTING

The City Treasurer shall provide the City Council monthly investment reports which provide a clear picture of the status of the current investment portfolio. The management report shall include the a listing of individual securities held at the end of the reporting period by authorized investment category, the average life and final maturity of all investments listed, coupon rate, discount or earnings rate, par value, acquisition cost, and market value of each investment in the portfolio.

As specified in California Government Code Section 53646 (e), if all funds are placed in LAIF, FDIC-insured accounts and/or in a county investment pool, the foregoing report elements may be replaced by copies of the latest statements from such institutions. The report must also include a certification that the City of Bell will meet its expenditure obligations for the next six months as required by California Government Code Section 53646 (b)(3). The City Treasurer shall maintain a complete and timely record of all investment transactions.

16. INVESTMENT POLICY ADOPTION

The City's Statement of Investment Policy shall be adopted annually by resolution of the Bell City Council.

Resolution Adopting 2015 Statement of Investment Policy

RESOLUTION NO. 2015- 01

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF BELL, CALIFORNIA APPROVING STATEMENT OF INVESTMENT POLICY FOR THE CALENDAR YEAR 2015

WHEREAS, the City Manager has prepared and submitted a proposed Statement of Investment Policy for the calendar year 2015, pursuant to State Law and the stipulation of the City's Statement of Investment Policy:

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF BELL DOES HEREBY FIND AND RESOLVE AS FOLLOWS:

The proposed Statement of Investment Policy for the calendar year 2015 is hereby approved and adopted without revision to the 2014 Statement of Investment Policy.

PASSED, APPROVED AND ADOPTED on January 15, 2015.

_____
Nestor E. Valencia, Mayor

APPROVED AS TO FORM:

_____
David Aleshire, City Attorney

CERTIFICATE OF ATTESTATION AND ORIGINALITY

I, Angela Bustamante, Acting City Clerk of the City of Bell, hereby attest to and certify that the foregoing resolution is the original resolution adopted by the Bell City Council at its regular meeting held on the 15th day of January, 2015, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

_____
Angela Bustamante, Acting City Clerk

2014 Statement of Investment Policy

CITY OF BELL

2014 STATEMENT OF INVESTMENT POLICY

INTRODUCTION

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The City Treasurer and other 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. The City Treasurer and investment officials shall disclose to the City Manager any material interests in financial institutions with which they conduct business within their jurisdiction. They shall further disclose any large personal financial/investment positions that could be related to the performance of the City's investment portfolio. During the course of the year, if there is an event subject to disclosure that could impair the ability of the City Treasurer or investment employees to make impartial decisions, the City Council will be notified in writing within 10 days of the event.

7. AUTHORIZED DEALERS AND FINANCIAL INSTITUTIONS

The purchase by the City of any authorized investment, not purchased directly from the issuer, shall be purchased either from an institution licensed by the state as a broker-dealer, or from a member of a federally regulated securities exchange, from a national or state-chartered bank, from a savings association or federal association or from a brokerage firm designated as a primary government dealer by the Federal Reserve bank. The Treasurer will maintain a list of financial institutions authorized to provide investment services. No public deposit shall be made except in a qualified public depository as established by state laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the City Treasurer with the following: Audited Financial Statements, proof of Financial Industry Regulatory Authority (FINRA) registration, trading resolution, proof of California registration and certification of having read this City's investment policy.

8. AUTHORIZED AND SUITABLE INVESTMENTS

The City is empowered by statute to invest in the following types of securities: investments set forth in this section are authorized investments pursuant to Section 53601 of the Government Code and are authorized investments for the City subject, however, to the prohibitions set forth in Section 9 of this Investment Policy.

A. Securities of the U.S. Government

U.S. Treasury Bills – issued by the U.S. Treasury and are available in maturities out to one year. They are non-interest bearing and sold on a discount basis. The face amount is paid at maturity.

U.S. Treasury Notes – issued by the U.S. Treasury with maturities from two to ten years. They are issued in coupon form and many issues are also available in registered form. Interest is payable at six month intervals until maturity.

U.S. Treasury Bonds – issued by the U.S. Treasury with maturities of ten years to thirty years. The City may purchase the interest and/or principal of a U.S. Treasury Bond. A principal only instrument is commonly called a "stripped" or "zero" coupon. Stripped coupons are sold at a discount basis. The face amount is paid at maturity.

B. Securities of U.S. Government Agencies

The capital of U.S. government agencies was initially financed by the United States Treasury. But as they have grown and operated profitably over the years, the Treasury's investment has been replaced in a large measure by private capital. At present, obligations of only a few agencies are backed by the full faith and credit of the U.S. Government. The obligations of all the federal agencies described in the following sections are not guaranteed by the U.S. Government with the exception of Government National Mortgage Association (GNMA), but are considered to be investments of the highest quality.

Federal National Mortgage Association – (Fannie Mae) a quasi public corporation created by an act of Congress to assist the home mortgage market by purchasing mortgages insured by the Federal Housing Administration and the Farmers Home Administration, as well as those guaranteed by the Veterans Administration. Fannie Mae issues Notes and Bonds and there is a strong secondary market in these securities. A secondary market means these instruments are actively traded, they are bought and sold daily. Bonds are issued for 15 and 30 year maturities with interest paid semi-annually. Interest is computed on a 30/360 day basis. Notes are issued with maturities of less than one year with interest paid at maturity.

Government National Mortgage Association – (Ginnie Mae) a wholly owned corporation instrumentality of the United States within the Department of Housing and Urban Development. A certificate collateralized by FHA/VA residential mortgages represents a share in a pool of FHA or VA mortgages. Ginnie Mae's are registered securities. Original maturities range from 12 to 30 years with a 7 to 12 year assumed average life. (Assumed average life is due to

prepayments of mortgages). Principal and interest are paid monthly and sent directly from the issuer of the pool, usually a mortgage banker, to the City.

Federal Home Loan Banks – (FHLB) provide credit to member lending institutions such as savings and loan associations, cooperative banks, insurance companies and savings banks. The agency offers bonds in the public market with maturities of 1 to 10 years. These bonds are usually offered on a quarterly basis depending on the current demands of the housing industry. Interest is paid semi-annually on a 30/360 day basis.

Federal Farm Credit Banks – debt instruments issued to meet the financial needs of farmers and the national agricultural industry, these issues enjoy an established secondary market. Discount notes are issued monthly with 6 and 9 month maturities. Longer term debentures (2-5 years) are also issued. Discount notes pay interest at maturity. Debentures pay interest semi-annually on a 30/360 day basis.

Federal Home Loan Mortgage Corporation – (Freddie Macs) A publicly held government-sponsored enterprise created in 1970 pursuant to the Federal Home Loan Mortgage Corporation Act, Title III of the Emergency Home Finance Act of 1970, as amended. Freddie Mac's statutory mission is to provide stability in the secondary market for home mortgages, to respond appropriately to the private capital market and to provide ongoing assistance to the secondary market for home mortgages by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for home mortgage financing. Maturity can be from 1 to 30 years. These loans can be either set at a fixed rate or a variable rate.

C. Bonds

City Bonds – Bonds issued by the city, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the City or by a department, board, agency, or authority of the City.

State Bonds – Registered state warrants or treasury notes or bonds of the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the State or by a department, board, agency, or authority of the State.

Municipal Bonds – Bonds, notes, warrants, or other evidences of indebtness of any local agency within the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

D. Time Deposits and Certificates of Deposit

Time Deposits are placed with commercial banks and savings and loan agencies in California. A time deposit is a receipt for funds deposited in a financial institution for a specified period of time at a specified rate of interest. Deposits up to $250,000 (referred to as Jumbo C.D.'s) per institution are insured by the government. Deposits in excess of the federal deposit insurance limit are required to be collateralized as specified under Government Code Section 53630 et seq. . Purchases of certificates of deposit may not exceed 30 percent of the City's surplus money to be invested. Generally the time is 3 months to 2 years. Denominations can be any agreed upon amount and interest is normally calculated using actual number of days on a 360-day year and paid monthly. An institution must meet the following criteria to be considered by the City:

- The institution must have received a minimum overall satisfactory rating, under the Community Reinvestment Act, for meeting the credit needs of California Communities in its most recent evaluation.

- The institution must maintain a net worth to asset ratio of at least 3% and a positive earnings record.

- The institution must be in compliance with the Financial Institution Reform Act (FIRREA) capital ratio requirements for risk-based, tangible, and core capital.

- The institution must make available a current Federal Deposit Insurance Corporation (FDIC) call report or a Federal Home Loan Bank (FHLB) report. A call report presents the financial condition of the institution to the agency with oversight responsibility of that institution.

E. Negotiable Certificates of Deposit

Eligible paper is 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). Negotiable Certificates of Deposit may not exceed 30% of the City's surplus funds to be invested. Maturities range from 3 months to 2 years and are generally issued in blocks of $1 million, $5 million, $10 million, etc. Interest is paid semi-annually computed on a 30/360 day basis.

F. Bankers Acceptance Notes

Bankers acceptances are short term investments otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers acceptances may not exceed 180 days maturity or 40 percent of the City's surplus money that may be invested pursuant to this section. In addition, no more than 30 percent of the City's surplus funds may be invested in the bankers acceptances of any one commercial bank pursuant to this section.

G. Commercial Paper

Commercial paper is the trade name applied to unsecured promissory notes issued by finance and industrial companies to raise funds on a short term basis. Only commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided for by Moody's Investors Service, Inc., or Standard and Poor's Corporation is allowable. Eligible paper is further limited to issuing corporations that are organized and operating within the United States as a general corporation and having total assets in excess of five hundred million dollars ($500,000,000) and having an "A" 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. Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10 percent of the outstanding paper of an issuing corporation. Purchases of commercial paper may not exceed 25 percent of the City's surplus money that may be invested pursuant to this section.

H. Local Agency Investment Fund demand deposit

The Local Agency Investment Fund (LAIF) was established by the State of California to enable treasurers to place funds in a pool for investment. Each agency is limited to an investment of $50 million per account. The City uses this fund for short term liquidity investment, and yield when rates are declining as funds are available upon demand. Interest is paid quarterly.

I. Mutual Funds

Mutual Funds are limited to the following:

a. Limited Term Government Funds
b. Money Market Funds limited to Treasury obligations (Reverse Repurchase not allowed) with a highest rating from Moody's or Standard & Poors to allow the funds held by the Bond Trustee to be invested. In addition, the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of five hundred million dollars ($500,000,000) and has at least 5 years experience investing in instrument authorized by Government Code Sections 53601.

J. Investment Pools

A thorough investigation of a pool/fund is required prior to the City's investment and on a continual basis. The City currently permits the use of the Local Agency Investment Funds (LAIF). Any additional pool shall provide the following:

- A description of eligible investment securities, and a written statement of investment policy and objectives.

- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often are the securities priced and the program audited.
- A description of who may invest in the program, how often, and what size deposit and withdrawal are allowed
- A schedule for receiving statements and portfolio listings.
- A list of any reserves, retained earnings, etc. utilized by the pool.
- A fee schedule, when and how it is assessed.
- Pool eligibility for bond proceeds and/or pool policy on accepting such proceeds.

9. PROHIBITED INVESTMENTS AND TRANSACTIONS

The City shall be in full compliance with 53601.6 regarding prohibited investments.

- The City shall not invest public monies in financial instruments that are not authorized under this Statement of Investment Policy

- The City shall not engage in securities lending, short selling or other hedging strategies.

- The City shall not invest any funds in inverse floaters, range notes, or interest-only strips that are derived from a pool or mortgages or reverse repurchase agreements.

- The City shall not invest any funds in any security that could result in zero interest accrual if held to maturity.

- The City shall not purchase or sell securities on margin.

- The following types of investments shall not be directly used by the City:
  a. Federal Agency Issues: Guaranteed Small Business Administration (SBA) Notes
  b. Mutual Funds-except those specified in Section 8. (Authorized and Suitable Investments). In addition, the City will allow cash held by Fiscal Agent to invest in Money Market Funds limited to Treasury obligations (Reverse Repurchase Agreements not allowed) with a highest rating from Moody's or Standard & Poor's
  c. Medium Term Corporate Notes
  d. Reverse Repurchase Agreements

It is acknowledged that investment pools in which the City invests may invest funds in the securities set forth in this subdivision.

10. SAFEKEEPING AND CUSTODY

All security transactions entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodial designated by the Treasurer and evidenced by safekeeping receipts. The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) LAIF, (ii) other permitted investment pools, and (iii) money market mutual funds, since the purchased securities are not deliverable. Evidence of each these investments will be held by the Treasurer in accordance with internal procedures.

11. DIVERSIFICATION

The City operates its investment pool with many State and self-imposed constraints. It does not buy stocks and it does not speculate. Assets shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities.

The City will diversify its investments by security type, institution and maturity/call dates. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

12. MAXIMUM MATURITIES

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than 5 years from the date of purchase. The City Council expressly permits bond reserve funds to be invested in securities exceeding five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the specified funds.

13. INTERNAL CONTROL

The Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with the City's Investment Policy and for establishing internal controls that are designed to prevent losses due to fraud, negligence, and third-party misrepresentation. Accordingly, the City Treasurer shall establish written procedures for the operation of the City's investment program that are consistent with the provisions of this Investment Policy.

Internal controls deemed most important shall include (but not limited to): avoidance of collusion; separation of duties and administrative controls; separating transaction authority from accounting and record keeping; custodial safekeeping; clear delegation of authority; management approval and review of investment transactions; specific limitations regarding securities losses and remedial action; written confirmation of

telephone transactions; documentation of investment transactions and strategies; and monitoring of results.

14. PERFORMANCE STANDARDS

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

The City's investment strategy is passive. Passive investment portfolio management generally indicates that the Treasurer will purchase an instrument and hold it through to call or maturity, and then reinvest the monies. Although the City's investment strategy is passive, this will not restrict the Treasurer from evaluating when swaps are appropriate or if the sale of an instrument is prudent prior to final maturity. Given this strategy, the basis used by the Treasurer to determine whether market yields are being achieved shall be the Local Agency Investment Funds. (LAIF).

15. REPORTING

The City Treasurer shall provide the City Council monthly investment reports which provide a clear picture of the status of the current investment portfolio. The management report shall include the a listing of individual securities held at the end of the reporting period by authorized investment category, the average life and final maturity of all investments listed, coupon rate, discount or earnings rate, par value, acquisition cost, and market value of each investment in the portfolio.

As specified in California Government Code Section 53646 (e), if all funds are placed in LAIF, FDIC-insured accounts and/or in a county investment pool, the foregoing report elements may be replaced by copies of the latest statements from such institutions. The report must also include a certification that the City of Bell will meet its expenditure obligations for the next six months as required by California Government Code Section 53646 (b)(3). The City Treasurer shall maintain a complete and timely record of all investment transactions.

16. INVESTMENT POLICY ADOPTION

The City's Statement of Investment Policy shall be adopted annually by resolution of the Bell City Council.