

CITY OF LA PALMA

STATEMENT OF INVESTMENT POLICY

# **CITY OF LA PALMA**

## **STATEMENT OF INVESTMENT POLICY**

UPDATED JANUARY 2022

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**CITY OF LA PALMA**  
**STATEMENT OF INVESTMENT POLICY**  
**UPDATED JANUARY 2022**

**I. PURPOSE**

This Statement of Investment Policy is intended to provide a guideline for the prudent investment of temporary idle cash and restricted monies and to outline a policy for maximizing the efficiency of the cash management system. The cash management system of the City of La Palma is designed to accurately monitor and forecast expenditures and revenues, thus insuring the investment of monies to the fullest extent possible.

**II. OBJECTIVE**

Pursuant to Government Code Section 53600.5, the primary investment objective is to safeguard the principal of the funds under City control (safety). The secondary objective is to meet the liquidity needs of the City (liquidity). The third objective is to achieve a return on funds under the City's control (yield). Attempts to obtain highest interest yields possible are a statement of fact as long as investments meet the criteria required for safety and liquidity.

**III. SCOPE**

This Investment Policy applies to activities of the City with regard to investing the financial assets of all funds under the City's control, including the following: General Fund, Special Revenue Funds, Assessment Funds, Internal Service Funds, Capital Projects Funds, Debt Service Funds, Reserve Funds, Trust and Agency Funds, and any other Funds that may be created from time to time with the exception of deferred compensation assets (pension and other post employment benefits) held in a trust and the proceeds of bond issues.

#### IV. STANDARDS OF CARE

##### 1. PRUDENCE

The standard of prudence to be used by investment officials shall be the “prudent investor” standard as set forth in Section 53600.3 of the California Government Code, which states in part that, “When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, 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 Agency.” The prudent investor standard shall be applied in the context of managing the overall portfolio.

##### 2. DELEGATION OF AUTHORITY

The authority to manage and operate the investment program is granted to the Treasurer (or his/her designee) pursuant to Section 53607 of the California Government Code. Individuals who may execute investment transactions are those persons who are authorized by resolution to deposit, invest, make payment of, or transfer public funds. No other person may execute an investment transaction. (Throughout this policy, it shall be understood that wherever duties of the “Treasurer” are mentioned, such reference extends to the Treasurer’s designee.)

The City may delegate investment authority to an investment advisor. The advisor will follow the Investment Policy and such other written instructions as are provided.

##### 3. 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 officials shall disclose to the Treasurer any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City’s portfolio.

**V. INTERNAL CONTROLS**

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse.

The Treasurer shall establish the investment functions so that specific responsibility for the performance of duties and segregation of duties are assigned with a clear line of authority and responsibility. The functions of authorizing, recording transactions, and performing reconciliation's are handled by separate persons to reduce the risk that a person is in a position to conceal errors or fraud in the normal course of duty.

The current segregation of duties is as follows:

<b>Function</b>	<b>Responsibility</b>
Develop formal investment policy	Treasurer and City Manager
Review formal investment policy	City's Auditing Firm
Adopt formal investment policy	City Council
Execute investment transactions	Treasurer (the above signer as well as signer listed below) City Manager
Investment verification and recordation	Accounting Supervisor
Reconcile investment records to bank statements	Administrative Services Director
Verify and countersign investment reconciliation	City Manager

While no internal control system, however elaborate, can guarantee absolute assurance that the City's assets are safeguarded, it is the intent of the City's internal control system to provide reasonable assurance that management of the investment function meets the City's objectives. These internal controls shall be reviewed annually by the independent auditor.

**VI. SUITABLE AND AUTHORIZED INVESTMENTS**

The California Government Code (Sections 16429.1, 53601, 53630, and 53684) allows the City to invest in the following instruments:

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Investment Type	Maximum Maturity	Authorized Limit (%)	Rating or Other Code Requirements
Local Agency Bonds	5 years	None	None
U. S. Treasury Obligations	5 years	None	None
State of California Obligations	5 years	None	None
Other 49 State Obligations	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U. S. Agencies	5 years	None	None
Bankers' Acceptances <sup>(a)</sup>	180 days	40%	None
Commercial Paper <sup>(b)</sup>	270 days	25%	Highest letter and number rating by NRSRO
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements and Securities Lending Agreements <sup>(c)(d)</sup>	92 days	20% of base	None
Medium-Term Notes <sup>(e)</sup>	5 years	30%	"A" Rating Category
Mutual Funds <sup>(f)(g)</sup>	N/A	20%	Multiple
Money Market Mutual Funds <sup>(h)</sup>	N/A	20%	AAA by two NRSROs or Advisor Requirements
Collateralized Bank Deposits	5 years	None	None
Asset-Backed Securities <sup>(i)</sup>	5 years	20%	"AA" Issue Rating Category
Supranationals (IBRD, IADB, IFC)	5 years	30%	"AA" Rating Category
Joint Powers Authority Pool/Local Government Investment Pools (LGIPs) <sup>(j)</sup>	N/A	None	Advisor Requirements
Local Agency Investment Fund (LAIF)	N/A	None	None
County Pooled Investment Funds	N/A	None	None
Time Deposits (non-negotiable CDs)	5 years	None	Bank must have a branch in CA and have a minimum CRA rating of satisfactory. Must be FDIC insured or meet State proscribed collateral requirements.

<sup>(a)</sup>No more than 30% of surplus funds may be invested in Bankers' Acceptances of any one commercial bank.

<sup>(b)</sup> Commercial paper issuers must be organized and operating with the U. S. and have assets in excess of \$500 million. No more than 10 percent of the outstanding commercial paper of any single corporate issuer may be purchased by the local agency.

<sup>(c)</sup> May exceed the 92-day term if the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity dates of the same security.

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- (d) Reverse repurchase agreements must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has a significant relationship with the local agency and the securities used for the agreement must have been held by the issuer for at least 30 days.
- (e) "Medium-term notes" are defined in Government Code Section 53601 as "all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating with the U.S. or by depository institutions licensed by the U.S. or any state and operating within the U.S."
- (f) No more than 10% of an agency's surplus funds may be invested in any one mutual fund.
- (g) A mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years experience investing in instruments authorized by Government Code Sections 53601 and 53635.
- (h) A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations (NRSROs) or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years experience investing in money market instruments with assets under management in excess of \$500 million.
- (i) Issuer must have an "A" rating or better for the issuer's debt as provided by a nationally recognized rating agency.
- (j) A joint powers authority pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years experience investing in instruments authorized by Government Code Section 53601, subdivisions (a) to (q).

The City of La Palma is limiting its purchase of investments to the following vehicles. Where this Policy specifies a percentage limitation for a particular security type or issuer, that percentage is applicable at the time the security is purchased. No more than 5% of the City's portfolio shall be invested in any one issuer regardless of sector except for the U.S. Treasury, Federal Agencies, supranationals, and pools (including LAIF, LGIPs, and money market funds). Credit criteria listed in this section refers to the credit rating at the time the security is purchased. If an investment's credit rating falls below the minimum rating required at the time of purchase, the City's investment advisor (if any) and Treasurer will review the rating agency action and decide whether to sell or hold the investment.

- LAIF (Local Agency Investment Fund) – a special fund in the State Treasury which local agencies may use to deposit funds for investment. There is no minimum investment period and the minimum transaction is \$5,000, in multiples of \$1,000 above that, with a maximum balance permitted by the State Treasurer. However, any investment with LAIF must comply with other self-imposed restrictions as specified in this Investment Policy. The City is restricted to a maximum of fifteen transactions per month. It offers high liquidity because deposits can be converted to cash in twenty-four hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share basis determined by the amounts

deposited and the length of time they are deposited. Interest is paid quarterly. The State retains an amount for reasonable costs of making the investments, not to exceed one-half of one percent of the earnings.

- Non-negotiable deposits in a state or national bank, savings association or federal association, federal or state credit union in the State of California. In accordance with California Government Code Section 53635.2, to be eligible to receive City deposits, a financial institution shall have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities. Certificates of deposit are required to be collateralized as specified under Government Code Section 53630 et seq. The City, at its discretion, may waive the collateralization requirements for any portion that is covered by Federal Deposit Insurance Corporation (FDIC) insurance. The City shall have a signed agreement with any depository accepting City funds per Government Code Section 53649. No deposits shall be made at any time in certificates of deposit issued by a state or federal credit union if a member of the City Council or the Treasurer serves on the board of directors or any committee appointed by the board of directors of the credit union. In accordance with Government Code Section 53638, any deposit shall not exceed that total shareholder's equity of any depository bank, nor shall the deposit exceed the total net worth of any institution. Eligible non-negotiable CDs shall have a maximum maturity of 2 years. No more than 25% of the City's portfolio may be invested in non-negotiable CDs.
- U. S. Treasury bills, notes, bonds, or certificates of indebtedness, for which the full faith and credit of the United States are pledged for the payment of principal and interest.
- Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.
- Registered state warrants or treasury notes or bonds of this state, 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. Obligations eligible for investment under this subdivision with maturities in excess of one year must be rated in a rating category "A" or its equivalent or better by a nationally recognized statistical rating organization (NRSRO). Obligations eligible for investment under this subdivision with maturities under one year must be rated in a rating category of "A-1," its equivalent, or better by a NRSRO.



- Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California. Obligations eligible for investment under this subdivision must be rated in a rating category of "A" or its equivalent or better by a NRSRO. Obligations eligible for investment under this subdivision with maturities under one year must be rated in a rating category of "A-1," its equivalent, or better by a NRSRO.
- Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, 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. Obligations eligible for investment under this subdivision must be rated in a rating category of "A" or its equivalent or better by a NRSRO. Obligations eligible for investment under this subdivision with maturities under one year must be rated in a rating category of "A-1," its equivalent, or better by a NRSRO.
- Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days' maturity or 25% of the City's portfolio that may be invested pursuant to this section. Eligible bankers' acceptances must be rated in the highest letter and number rating as provided for by a NRSRO.
- Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):
  - 1) The entity meets the following criteria: Is organized and operating in the United States as a general corporation. Has total assets in excess of five hundred million dollars (\$500,000,000). Has debt other than commercial paper, if any, that is rated in a rating category of "A" or higher, or the equivalent, by a NRSRO.
  - 2) The entity meets the following criteria: Is organized within the United States as a special purpose corporation, trust, or limited liability company. Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond. Has commercial paper that is rated in a rating category of "A-1" or higher, or the equivalent, by a NRSRO.

Purchases of eligible commercial paper may not exceed 25% of the market value of the City's portfolio or have a term to maturity which exceeds 270 days.

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- Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally- or state-licensed branch of a foreign bank. Eligible negotiable CDs with maturities in excess of one year must be rated in a rating category of "A" or its equivalent or better by a NRSRO. Eligible negotiable CDs with maturities under one year must be rated in a rating category of "A-1," its equivalent, or better by a NRSRO. No more than 30% of the City's portfolio may be invested in negotiable CDs.
- Medium-term corporate notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of 5 years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Medium-term corporate notes shall be rated in a rating category "A" or its equivalent or better by a NRSRO. No more than 30% of the City's portfolio may be invested in corporate notes.
- Asset-Backed Security (ABS). Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-back certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond of a maximum remaining maturity of five years or less. Eligible securities must be rated, by a nationally recognized rating service, in a rating category of "AA", its equivalent, or higher as provided by a NRSRO. No more than 20% of the City's portfolio may be invested in this type of security.
- Supranational. United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA", its equivalent, or higher by a NRSRO. No more than 30% of the City's portfolio may be invested in this security type.
- Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a- 1, et seq.). To be eligible for investment pursuant to this subdivision these companies shall either: have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than 5 years experience managing

money market mutual funds and with assets under management in excess of \$500,000,000, or attain the highest ranking letter or numerical rating provided by not less than two of the three largest NRSROs. No more than 20% of the City's portfolio may be invested in money market funds.

- Shares of beneficial interest issued by a joint powers authority, Local Government Investment Pools (LGIPs), organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (q), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:
  - 1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.
  - 2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.
  - 3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).
- Passbook Savings Account. The City may invest in savings accounts for temporary holdings of funds.
- Checking Accounts. The City may maintain checking accounts or "demand deposits" to deposit or withdraw cash at any time without prior notice or penalty.
- Other investments that are, or may be deemed legal investments by the California Government Code and which are approved by the City Council.

## **VII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

The Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained for approved or security broker/dealers selected by credit worthiness that are authorized to provide investment services to the City. The purchase by the City of any investment other than those purchased directly from the issuer, will be purchased either from an institution licensed by the State as a broker-dealer, as defined in Section 25004 of the Corporations Code, which is a member of the Financial Industry Regulatory Authority (FINRA), or a member of a federally regulated securities exchange, a national or state chartered bank, a federal or state association (as defined by Section 5102 of the Financial Code), or a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank.

If the City has an investment advisor, the investment advisor may use its own list of authorized broker/dealers to conduct transactions on behalf of the City.

#### **VIII. CUSTODY AND DELIVERY OF SECURITIES**

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 bank custodian designated by the Treasurer and evidenced by safekeeping receipts.

#### **IX. REPORTING METHODS**

The Treasurer shall prepare a quarterly investment report as permitted by Section 53646 of the California Government Code, which provides a clear picture of the status of the current investment portfolio. The report should be provided to the City Manager and legislative body within 45 days following the end of the quarter covered by the report. The report should include the following:

- a. Type of investment
- b. Institution or issuer
- c. Date of maturity
- d. Amount of deposit or cost of security
- e. Current market value of securities and source of market value
- f. State that there are sufficient funds to meet the next 6 months' obligations or provide an explanation as to why sufficient monies shall or may not be available
- g. State that investments are in compliance with the City's investment policy or manner in which the portfolio is not in compliance

#### **X. POLICY CONSTRAINTS**

##### **1. CITY CONSTRAINTS**

The City of La Palma operates its pooled idle cash investments under the Prudent Investor Standard. The Treasurer will evaluate local banks and savings institutions and may invest idle cash funds with such institutions when the criteria for prudent investment previously stated are met. The City operates its investment pool according to State and self-imposed constraints. It does not buy stocks; it does not speculate; it does not deal in futures or options. It does not purchase or sell securities on margins or invest in derivative type investments such as inverse floaters, range notes or interest only strips derived from a pool of mortgages as prohibited under Section 53601.6 of the California Government Code. Any investment extending beyond a five-year period requires prior City Council approval at least 90 days in advance.

2. LEGAL CONSTRAINTS

Surplus funds must be deposited in State or national banks, State or Federal savings associations or State or Federal credit unions within the State of California. The deposits cannot exceed the amount of the bank's or savings and loan's paid-up capital and surplus.

The bank or savings and loan must secure public funds deposits with eligible securities having a market value of 100% of the total amount of the deposits. State law also allows as an eligible security, first trust deeds having a value of 150% of the total amount of the deposits.

- (a) The Treasurer may waive, at his or her discretion, security for that portion of a deposit which is insured pursuant to federal law. Currently, the first \$250,000 of a deposit is federally insured.

**XI. POLICY REVIEW**

As required by Section 53646 of the California Government Code, any change in this policy shall be considered by the City Council at a public meeting. Additionally, this policy may be reviewed at a public meeting of the City Council to ensure its consistency with the overall objectives or preservation of principal, liquidity, and return, and its relevance to current law, financial and economic trends.