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3 **RESOLUTION NO. 02-**

4 **A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF HERMOSA BEACH,**
5 **CALIFORNIA, ACKNOWLEDGING THE RECEIPT, ~~AND FILING OF~~ AND APPROVING**
6 **APPROVAL OF THE ANNUAL STATEMENT OF INVESTMENT POLICY AND**
7 **DELEGATING INVESTMENT AUTHORITY TO THE CITY TREASURER FOR THE YEAR**
8 **2002**

9 **WHEREAS,** Government Code Section 53646 requires the filing of an annual
10 Statement of Investment Policy by local public agencies; and

11 **WHEREAS,** the City Treasurer of the City of Hermosa Beach has rendered the
12 following Statement of Investment Policy to this eCity eCouncil for the calendar year 2002:

13 **PURPOSE:** This statement is intended to provide a guideline for the prudent investment
14 of temporary idle cash, trust funds and restricted moneys and to outline a policy for
15 maximizing the efficiency of the cash management system. Ultimate investment goals include
16 the enhancement of economic status and the protection of pooled cash investments.

17 **OBJECTIVE:** The cash management system of the City of Hermosa Beach is designed
18 to accurately monitor and forecast expenditures and revenues, thus insuring the investment of
19 moneys to the fullest extent possible. The city attempts to obtain highest interest yields
20 possible as long as investments meet the criteria required for safety and liquidity.

21 **POLICY:** The City of Hermosa Beach operates its investment program with State and
22 self-imposed constraints. It does not buy stocks; it does not speculate; it does not deal in
23 futures, options or security loan agreements. With regard to investment companies, the City
24 will deal only with investment companies registered with the Securities and Exchange
25 Commission. The City Treasurer will have sole discretion over Security Trading, except in the
26 case of monies invested in the State of California Local Agency Investment Fund(LAIF) and
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1 the Los Angeles County Pooled Investment fund(LACPIF). Longer term investments (over
2 one year) are generally limited to maturates of 3 years or less, but will never exceed five years.

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4 **Criteria** for selecting investments and the absolute order of priority are:

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6 1. **Safety:** The safety and risk associated with an investment refers to the potential loss of
7 principal, interest or a combination of these amounts. Since it is the primary duty and
8 responsibility of the Treasurer to protect, preserve and maintain cash and investments placed in
9 his/her trust on behalf of the citizens of the City, Hermosa Beach only invests in those
10 instruments that are considered very safe.

11 2. **Liquidity:** This refers to the ability to "cash in" at any moment in time with minimal chance
12 of losing some portion of the principal or interest. An adequate percentage of the portfolio
13 should be maintained in liquid short-term investments which can be converted to cash if
14 necessary to meet disbursement requirements. Since all cash requirements cannot be
15 anticipated, investments in securities with active secondary or resale markets is highly
16 recommended. Emphasis should be on marketable securities with low sensitivity to market
17 risk.

18 3. **Yield:** yield is the potential dollar earnings an investment can provide, and sometimes is
19 described as the rate of return. It should become a consideration only after the basic
20 requirements of safety and liquidity have been met.

21 The City's investment philosophy is to insure the safety of principle and to provide money
22 when needed. A high dollar yield on investments, though important, ranks third in the priority
23 of investment strategy.

24 **Depository Services**

25 Money must be deposited in state or national banks, state or federal savings
26 associations, or state or federal credit unions in the state. It may be in inactive deposits, active
27 deposits or interest-bearing active deposits which are insured or collateralized as required by

1 Government Code Section 53630 at seq. The deposits generally may not exceed the amount of
2 the bank's shareholder's equity, the savings and loan's networth or the credit union's
3 unimpaired capital and surplus. We require that each financial institution submit current
4 financial statements which are evaluated prior to the investment of funds. We use the
5 following criteria:

6 The institution must have been in business at least three years. The institution must submit
7 audited financial statements. In addition, examination is made of the Reserve for Loan Losses
8 category to evaluate the financial trend of the institution's asset base. Whenever possible, the
9 use of several years' financial data is evaluated to present a trend of activity in the institution.
10 We also require the interest be paid to the City on a monthly basis (current state law only
11 requires quarterly payment).

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13 **Authorized Investments**

14 Generally, investments shall be made in the context of [the](#) "prudent person" rule, which states
15 that, "investments shall be made with judgment and care, under circumstances then prevailing,
16 which persons of prudence, discretion, and intelligence exercise in the management of their
17 own affairs, not for speculation, but for investment, considering the probable safety of their
18 capital as well as the probable income to be derived." The City is further governed by the
19 California Government Code, Sections 53600 et seq. Within the context of these limitations,
20 the following investments are authorized, as further limited herein:

21 **Negotiable Certificates of Deposit.** Not more than 5% of the City's portfolio is invested in any
22 one institution. Time Certificates of Deposits are safekept in a legally acceptable safekeeping
23 account. Total purchases are not to exceed 30% of surplus funds. An institution must meet
24 the following criteria to be considered by the City:

- 25 1. The institution must be located in California.
- 26 2. The institution must have current financial information, signed contract and waiver
27 on file with the City.

1 3. The institution must maintain a net worth to asset ratio of a least 5%, and have a
2 positive earnings record.

3 4. The institution must be at least 3 years old.

4 **U. S. TREASURIES** are direct obligations of the United States Government.

5 U.S. TREASURY BILLS are issued weekly with maturity dates up to one year. They are issued
6 and traded on a discount basis and the interest is figured on the 360 day basis, actual number of
7 days. They are issued in amounts of \$10,000 and up, in multiples of \$5,000. They are a highly
8 liquid security.

9 U.S. TREASURY NOTES are initially issued with two to ten years maturities. They are
10 actively traded in a large secondary market and are very liquid.

11 **MEDIUM-TERM NOTES** (MTNs) are corporate notes. Issuers include well
12 recognized banks and bank holding companies, insurance companies, finance companies and
13 industrial corporations. A large percentage of MTNs are unsecured senior debt obligations,
14 although a number of recent issues have come to market on a collateralized or secured basis.
15 Maturity bonds are from 9 months to one year, one year to 1 months, 18 months to 2 years,
16 and annually thereafter. Typically, rates are established at a positive spread over a Treasury
17 security of comparable maturity. Credit ratings on MTNs are established by nationally
18 recognized rating services. Standard and Poor's, Moody's Investors Service and Fitch Investors
19 Service. Credit supported MTNs typically carry the Aaa/AAA long term rating, based on the
20 credit-worthiness of the support entity. Collateralized MTNs receive the same rating based on
21 the over collateralization limits set by Standard and Poor's and Moody's. Although a rating of
22 A is required for Municipal investment as per sections 53601 and/or 53635, this agency, as
23 policy, will only consider investments with Aa/aa or better. There can be only 30% of the total
24 surplus funds used for MTN investment as per section 53635. MTNs offer safety, yield and
25 liquidity through a strong secondary market.

26 **BANKER'S ACCEPTANCES** are negotiable time drafts drawn to finance the export,
27 import, shipment or storage of goods, and they are termed "Accepted" when a bank guarantees

1 to pay the face value at maturity. A Banker's Acceptance constitutes an irrevocable obligation
2 of the accepting bank and a contingent obligation of the drawer and of any endorsees whose
3 names appear upon it. The bank is protected by its customer's agreement to provide the
4 necessary funds in advance of the maturity of the Acceptance and also by the pledge of
5 documents such as bills of lading, independent warehouse of terminal receipts, and other
6 documents evidencing ownership and the insurance of the goods so financed.

7 Cities and other local agencies are authorized to purchase Banker's Acceptances^s, subject to
8 several restrictions. First, the Banker's Acceptance must be eligible for purchase by the
9 Federal Reserve System. Second, purchases of Banker's Acceptances must not exceed one
10 hundred eighty (180) days maturity or 40% of the City's surplus money invested under
11 Sections 53601 and/or 53635. Finally, no more than 5% of the agency's surplus funds may be
12 invested in the Banker's Acceptances of any one commercial bank .

13 **LOCAL AGENCY INVESTMENT FUND (LAIF)**^s is a pooled investment fund in the
14 State Treasury which local agencies may use to deposit funds for investment. There is no
15 minimum investment period and the minimum transaction is \$5,000, in multiples of \$1,000
16 above that, with a maximum of \$~~1540~~1,000,000 for any agency. The City is restricted to a
17 maximum of ~~fifteen (15)~~^{ten} transactions per month. It offers high liquidity because deposits
18 can be converted to cash in twenty-four hours and no interest is lost. All interest is distributed
19 to those agencies participating on a proportionate share determined by the amounts deposited
20 and the length of time they are deposited. Interest is paid quarterly via ~~a check or warrant~~
21 direct deposit. The State keeps an amount for reasonable costs of making the investments, not
22 to exceed one-quarter of one percent of the earnings. The interest rates are fairly high because
23 of the pooling of the State surplus cash with the surplus cash deposited by local governments.
24 This creates a multi-billion dollar money pool and allows diversified investments. In a high
25 interest rate market, we do better than LAIF, but in times of low interest rates, LAIF yields are
26 higher. The City continually invests in the Local Agency Investment Fund (Government Code
27 Section 16429).

1 **LOS ANGELES COUNTY POOLED INVESTMENT FUND (LACPIF)** Pursuant to
2 Government Code Section 53684, local agencies in the County of Los Angeles may deposit
3 excess funds in LACPIF for the purpose of investment by the county treasurer Government
4 Code Sections 53601 and 53635;

5 The County keeps an amount for reasonable costs of making the investments, not to exceed
6 [sixteen \(16\)](#) basis points per month. The number of monthly transactions are not restricted.

8 **Safekeeping**

9 Certificates of Deposits or Receipts of Public Funds must be mailed or delivered to the City.
10 Banker's acceptances are actual "physical" securities, meaning they are evidenced by actual
11 certificates. All Treasury bills and most other Treasury securities are "book entry" securities,
12 meaning they are held at the Federal Reserve Union Bank of California where only a book
13 entry is used to denote ownership.

14 Collateral for time deposits in banks and savings and loans are held by the Federal Home Loan
15 Bank (FHB) or an approved Agency of Depository of the financial institution.

16 Securities purchased from broker/dealers shall be held in third party safekeeping.

17 **Public Trust**

18 All participants in the investment process shall act as custodians of the public trust.
19 Investment officials shall recognize that the investment portfolio is subject to public review
20 and evaluation. The overall program shall be designed and managed with a degree of
21 professionalism that is worthy of the public trust. In a diversified portfolio it must be
22 recognized that occasional measurement losses are inevitable, and must be considered within
23 the context of the overall portfolio's investment return, provided that adequate diversification
24 has been implemented.

25 **Risk Tolerance**

26 The City Council recognizes that investment risks can result from issuer defaults, market price
27 changes or various technical complications leading to temporary illiquidity. Portfolio

1 diversification is employed as a way to control risk. Investment Managers are expected to
2 display prudence in the selection of securities, as a way to minimize default risk. No
3 individual investment transaction shall be undertaken which jeopardizes the total capital
4 position of the overall portfolio. The Treasurer shall periodically establish guidelines and
5 strategies to control risks of default, market price changes, and illiquidity.

6 **Reporting**

7 The Treasurer or his deputy shall submit a monthly investment report to the City Council. This
8 report will include all required elements of the monthly report as prescribed by Government
9 Code Section 53646. Under the City's current Investment Policy, of the monthly report shall
10 include:

- 11 a. Type of investment
- 12 b. Name of issuer
- 13 c. Date of investment
- 14 d. Date of maturity
- 15 e. Amount of deposit or cost of the security
- 16 f. Current market value
- 17 ~~g. Asking price~~
- 18 gh. Rate of Interest
- 19 hi. A statement of compliance with California Code Section 53646, from
20 the City Treasurer certifying that sufficient investment liquidity and
21 anticipated revenues are available to meet the City's budgeted
22 expenditure requirement for the next six months; and

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26 NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF HERMOSA BEACH DOES
27 HEREBY RESOLVE AS FOLLOWS:

1 Section 1. That the annual Statement of Investment Policy for the City of Hermosa Beach,
2 as set forth in the recitals hereof, filed by the City Treasurer in compliance with Section
3 53646 (a) of the Government Code, is hereby approved.

4 Section 2. That this policy applies to investments effective January 1, 2002.

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7 PASSED, APPROVED AND ADOPTED THIS 22ND DAY OF January 2002

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10 -----
11 PRESIDENT of the City Council and MAYOR

12 of the City of Hermosa Beach, California.

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14 ATTEST: ----- CITY CLERK

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16 APPROVED AS TO FORM: ----- CITY
17 ATTORNEY

January 8, 2002

Honorable Mayor and Members of
the Hermosa Beach City Council

City Council Meeting
January 22, 2002

ADOPTION OF ANNUAL STATEMENT OF
INVESTMENT POLICY FOR
CALENDAR YEAR 2002

RECOMMENDATION

It is recommended that the City Council adopt the annual statement of investment policy for calendar year 2002.

BACKGROUND

Government Code section 53646 requires the filing of an annual Statement of Investment Policy by local public agencies.

ANALYSIS

Some changes have been made on the attached resolution to correct grammatical errors and to reflect LAIF's current limits on deposits and transactions.

With safety as a focus and the primary concern being the security of principal, the investments described will continue to earn current reasonable returns.

Respectfully submitted,

NOTED:

John M. Workman
City Treasurer

Stephen R. Burrell
City Manager

Noted for fiscal impact:

Viki Copeland
Finance Director

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