



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

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

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

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

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

17 **Depository Services**

18           Money must be deposited in state or national banks, state or federal savings associations, or state  
19 or federal credit unions in the state. It may be in inactive deposits, active deposits or interest-bearing active  
20 deposits which are insured or collateralized as required by Government Code Section 53630 at seq. The  
21 deposits generally may not exceed the amount of the bank's shareholders' equity, the savings and loan's  
22 networth or the credit union's unimpaired capital and surplus. We require that each financial institution  
23 submit current financial statements which are evaluated prior to the investment of funds. We use the  
24 following criteria:

25 The institution must have been in business at least three years. The institution must submit audited financial  
26 statements. In addition, examination is made of the Reserve for Loan Losses category to evaluate the  
27 financial trend of the institution's asset base. Whenever possible, the use of several year financial data is

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1 evaluated to present a trend of activity in the institution. We also require the interest be paid to the City on  
2 a monthly basis (current state law only requires quarterly payment).

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4 **Authorized Investments**

5 Generally, investments shall be made in the context of the "prudent person" rule, which states that,  
6 "investments shall be made with judgment and care, under circumstances then prevailing, which persons of  
7 prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation,  
8 but for investment, considering the probable safety of their capital as well as the probable income to be  
9 derived." The City is further governed by the California Government Code, Sections 53600 et seq. Within  
10 the context of these limitations, the following investments are authorized, as further limited herein:

11 **Negotiable Certificates of Deposit.** No more than 5% of the City's portfolio is invested in any one  
12 institution. Time Certificates of Deposits are safekept in a legally acceptable safekeeping account. Total  
13 purchases are not to exceed 30% of surplus funds. An institution must meet the following criteria to be  
14 considered by the City:

15 1. The institution must be located in California.

16 2. The institution must have current financial information, signed contract and waiver on file with the  
17 City.

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

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

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

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

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

27 **MEDIUM-TERM NOTES** (MTNs) are corporate notes. Issuers include well recognized banks  
28 and bank holding companies, insurance companies, finance companies and industrial corporations. A large

1 percentage of MTNs are unsecured senior debt obligations, although a number of recent issues have come  
2 to market on a collateralized or secured basis. Maturity bonds are from 9 months to one year, one year to  
3 18 months, 18 months to 2 years, and annually thereafter. Typically, rates are established at a positive  
4 spread over a Treasury security of comparable maturity. Credit ratings on MTNs are established by  
5 nationally recognized rating services. Standard and Poor's, Moody's Investors Service and Fitch Investors  
6 Service. Credit supported MTNs typically carry the Aaa/AAA long term rating, based on the credit-  
7 worthiness of the support entity. Collateralized MTNs receive the same rating based on the over  
8 collateralization limits set by Standard and Poor's and Moody's. Although a rating of A is required for  
9 Municipal investment as per sections 53601 and/or 53635, this agency, as policy, will only consider  
10 investments with Aa/aa or better. There can be only 30% of the total surplus funds used for MTN  
11 investment as per section 53635. MTNs offer safety, yield and liquidity through a strong secondary market.

12 **BANKER'S ACCEPTANCES** are negotiable time drafts drawn to finance the export, import,  
13 shipment or storage of goods, and they are termed "Accepted" when a bank guarantees to pay the face  
14 value at maturity. A Banker's Acceptance constitutes an irrevocable obligation of the accepting bank and a  
15 contingent obligation of the drawer and of any endorsees whose names appear upon it. The bank is  
16 protected by its customer's agreement to provide the necessary funds in advance of the maturity of the  
17 Acceptance and also by the pledge of documents such as bills of lading, independent warehouse of terminal  
18 receipts, and other documents evidencing ownership and the insurance of the goods so financed.

19 Cities and other local agencies are authorized to purchase Banker's Acceptances, subject to several  
20 restrictions. First, the Banker's Acceptance must be eligible for purchase by the Federal Reserve System.  
21 Second, purchases of Banker's Acceptances must not exceed one hundred eighty (180) days maturity or  
22 40% of the City's surplus money invested under Sections 53601 and/or 53635. Finally, no more than 5%  
23 of the agency's surplus funds may be invested in the Banker's Acceptances of any one commercial bank .

24 **LOCAL AGENCY INVESTMENT FUND (LAIF)** is a pooled investment fund in the State  
25 Treasury which local agencies may use to deposit funds for investment. There is no minimum investment  
26 period and the minimum transaction is \$5,000, in multiples of \$1,000 above that, with a maximum of  
27 \$40,000,000 for any agency. The City is restricted to a maximum of fifteen (15) transactions per month. It  
28 offers high liquidity because deposits can be converted to cash in twenty-four hours and no interest is lost.

1 All interest is distributed to those agencies participating on a proportionate share determined by the  
2 amounts deposited and the length of time they are deposited. Interest is paid quarterly via direct deposit.  
3 The State keeps an amount for reasonable costs of making the investments, not to exceed one-quarter of  
4 one percent of the earnings. The interest rates are fairly high because of the pooling of the State surplus  
5 cash with the surplus cash deposited by local governments. This creates a multi-billion dollar money pool  
6 and allows diversified investments. In a high interest rate market, we do better than LAIF, but in times of  
7 low interest rates, LAIF yields are higher. The City continually invests in the Local Agency Investment  
8 Fund (Government Code Section 16429).

9 **LOS ANGELES COUNTY POOLED INVESTMENT FUND (LACPIF)** Pursuant to Government  
10 Code Section 53684, local agencies in the County of Los Angeles may deposit excess funds in LACPIF  
11 for the purpose of investment by the county treasurer Government Code Sections 53601 and 53635;  
12 The County keeps an amount for reasonable costs of making the investments, not to exceed sixteen (16)  
13 basis points per month. The number of monthly transactions are not restricted.

#### 14 **Safekeeping**

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

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

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

#### 22 **Public Trust**

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

1 **Risk Tolerance**

2 The City Council recognizes that investment risks can result from issuer defaults, market price changes or  
3 various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a  
4 way to control risk. Investment Managers are expected to display prudence in the selection of securities,  
5 as a way to minimize default risk. No individual investment transaction shall be undertaken which  
6 jeopardizes the total capital position of the overall portfolio. The Treasurer shall periodically establish  
7 guidelines and strategies to control risks of default, market price changes, and illiquidity.

8 **Reporting**

9 The Treasurer or his deputy shall submit a monthly investment report to the City Council. This report will  
10 include all required elements of the monthly report as prescribed by Government Code Section 53646.

11 Under the City's current Investment Policy, of the monthly report shall include:

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

23  
24  
25  
26 NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF HERMOSA BEACH DOES  
27 HEREBY RESOLVE AS FOLLOWS:  
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1 Section 1. That the annual Statement of Investment Policy for the City of Hermosa Beach, as set forth  
2 in the recitals hereof, filed by the City Treasurer in compliance with Section 53646 (a) of the Government  
3 Code, is hereby approved.

4 Section 2. That this policy applies to investments effective January 1, 2004.

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7 PASSED, APPROVED AND ADOPTED THIS 10th DAY OF February 2004

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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 ATTORNEY  
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January 29, 2004

Honorable Mayor and Members of  
the Hermosa Beach City Council

City Council Meeting  
February 10, 2004

ADOPTION OF ANNUAL STATEMENT OF  
INVESTMENT POLICY FOR  
CALENDAR YEAR 2004

**RECOMMENDATION**

It is recommended that the City Council adopt the annual statement of investment policy for calendar year 2004.

**BACKGROUND**

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

**ANALYSIS**

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:

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John M. Workman  
City Treasurer

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Stephen R. Burrell  
City Manager

Noted for fiscal impact:

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Viki Copeland  
Finance Director