

# CITY OF EL PASO DE ROBLES INVESTMENT POLICY

## I. PURPOSE

The City has a fiduciary responsibility to maximize the productive use of its assets entrusted to its care and to manage those public funds wisely and prudently.

The purpose of this policy is to provide broad guidelines and direction to the officer(s) of the City charged with the responsibility for the investment of the City's temporary idle funds.

## II. SCOPE

The Investment Policy applies to all funds and investment activities of the City except the investment of bond proceeds, which are governed by the appropriate bond documents, and any pension or other post-employment benefit funds held in a trust.

## III. PRUDENCE

The standard of prudence to be used by investment officials will be the "prudent investor" standard, which states that, "when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated 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 agency."

## IV. OBJECTIVES

The objectives of the City's investment program shall be to maintain a level of investment of all temporary idle funds as near as 100% as possible with due consideration given to safety, liquidity, cash flow requirements and yield.

1. **Safety** - Investment Safety refers to attempts to reduce the potential for loss of principal and/or interest. The first level of loss control is found in state law that restricts the particular type of investment permissible for public agencies. The second level of loss control is reducing risk by investing in instruments that appear to be the most credit worthy. The third level of loss control is by investing in instruments that have maturities coinciding with cash needs thereby eliminating loss from forced sale. Safety is the primary duty and responsibility of the City Treasurer.
2. **Liquidity** - Liquidity refers to the ability to sell or otherwise make available funds when needed without risk of losing some portion of principal or interest on the investment.

3. **Yield** - Yield is the potential dollar earnings an investment can provide, sometimes described as the rate of return. Attempts should be made to invest in securities with the highest return potential provided the criteria for safety and liquidity are met.

## **V. DELEGATION OF AUTHORITY**

The management responsibility for the investment program is hereby delegated to the City Treasurer. The City Treasurer will monitor and review all investments for consistency with this Investment Policy. The City Treasurer may delegate investment decision making and execution authority to an investment advisor. The advisor will follow the Investment Policy and such other written instructions as are provided.

## **VI. ETHICS AND CONFLICTS OF INTEREST**

Officers and employees involved in the investment process will refrain from personal business activities that could conflict with proper execution of the investment program, or that could impair their ability to make impartial decisions.

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

A close working relationship should be maintained with well-established brokers/dealers and bankers whose proven technical knowledge and expertise is of assistance in making investment decisions. The City Treasurer shall maintain an approved list of brokers/dealers. List is attached herewith as Exhibit "A".

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. The investment advisor will provide its list of approved broker/dealers to the City annually. The City Treasurer will have the right to review the list and require any appropriate changes.

Competitive bids/quotations are to be obtained and documented on all investments when practical.

## **VIII. INVESTMENT GUIDELINES**

All City funds not required for immediate expenditure shall be fully invested or deposited to maximize investment returns. To maximize returns, the economy and market conditions should be monitored in order to assess the probable course of interest rates. The City shall utilize those eligible investments instruments as set forth in Government Code Sections 53601 and 53630 while following these guidelines:

1. Pursuant to Government Code Section 53647, the Director of Administrative Services shall, on a quarterly basis, allocate all interest earned to the General Fund unless otherwise required by Federal or State regulation or local ordinance.
2. Whenever practical, cash should be consolidated and invested on a pooled concept basis. Interest earnings shall be allocated monthly pursuant to paragraph 1 of this section.

3. The City Treasurer shall notify the Administrative Services Department of all trade transactions whether buy or sell.

## **IX. ALLOWABLE INVESTMENT INSTRUMENTS**

Where this section specifies a percentage limitation for a particular security type, that percentage is applicable only on the date of purchase. 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 Treasurer will perform a timely review and decide whether to sell or hold the investment.

The City shall limit investments to a maximum across all permitted investment sectors (excluding U.S. Treasuries, U.S. Instrumentalities, and investment pools) of 5% combined per issuer.

1. **Time Certificates of Deposit (TCD)** - TCDs shall be made only with banks and savings and loan institutions that are insured by the FDIC. Waiver of collateralization is permissible only on the first \$250,000. For collateralized TCDs, banks shall be required to certify semi-annually that the TCDs are fully collateralized in accordance with State law. The bank or savings and loan institution must be located in California. No more than 30% of the City's portfolio shall be invested in TCDs. The City Treasurer may require additional selection criteria as deemed appropriate.
2. **Local Agency Investment Fund (LAIF)** - Managed by the Treasure of the State of California Treasurer's Office, LAIF investments are permitted up to the regulatory maximum for each account establish by the City and its relating entities. Transactions shall be in accordance with established criteria as set forth by the State Treasurer's Office.
3. **Banker's Acceptances** - Banker's acceptances (BAs) are bills of exchange or time drafts that are drawn on and accepted by a commercial bank. The restrictions on use of banker's acceptances are as follows:
  - (a) BAs eligible for purchase shall have the highest ranking or highest letter and number rating as provided for by a nationally recognized statistical-rating organization (NRSRO).
  - (b) Maturity shall not exceed 180 days.
  - (c) No more than 40% of the City's portfolio may be invested in BAs.
4. **U.S. Treasury Bills and Notes** - United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.
5. **Federal Agencies** – 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.

6. **Repurchase Agreements** - Repurchase agreements (Repos) represent agreements to sell idle funds for U.S. government securities that will be repurchased at a future date for a specific price. Investments in repos shall not exceed 90 days. Physical delivery of the securities backing the repos or a safe keeping documentation to a qualified safe keeping institution is required.
7. **Commercial Paper** - Commercial paper is essentially an unsecured promissory note of a corporation or financial institution with a fixed maturity date. The entity that issues the commercial paper must meet all of the following conditions in either paragraph a or paragraph b:
  - a. The entity meets the following criteria: (i) is organized and operating in the United States as a general corporation, (ii) has total assets in excess of five hundred million dollars (\$500,000,000), and (iii) has debt other than commercial paper, if any, that is rated in a ratings category “A,” its equivalent, or higher by NRSRO.
  - b. The entity meets the following criteria: (i) is organized within the United States as a special purpose corporation, trust, or limited liability company, (ii) has program-wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond, and (iii) has commercial paper that is rated in a ratings category “A-1,” its equivalent, or higher by a NRSRO.

The City’s use of commercial paper is further restricted as follows:

- (a) Maturity shall not exceed 270 days.
- (b) No more than 25% of the City’s portfolio may be invested in commercial paper.

8. **Corporate Notes** - Medium-term notes, defined as all corporate and depository institution debt securities 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. Restrictions on use of corporate bonds are as follows:
  - (a) Maturity shall not exceed 5 years.
  - (b) No more than 30% of the City’s portfolio may be invested in corporate notes.
  - (c) Only corporate notes from companies with a minimum rating in a ratings category “A,” its equivalent, or better by a NRSRO
9. **Municipal Bonds issued by the State of California or any local agency within the state**- Including bonds payable solely out of revenues from a revenue producing property owned, controlled or operated by the state or any local agency, or by a department, board, agency, or authority of the state or any local agency. Restrictions on use of municipal bonds are as follows:
  - (a) Maturity shall not exceed 5 years.
  - (b) No more than 25% of the City’s portfolio may be invested in municipal bonds issued by State of California or any local agency within the state.
  - (c) Only municipal bonds from entities with a minimum rating in a ratings category “A,” its equivalent, or better by a NRSRO

**10. Municipal Bonds issued by 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 these states. Restrictions on use of municipal bonds are as follows:

- (a) Maturity shall not exceed 5 years.
- (b) No more than 25% of the City's portfolio may be invested in municipal bonds issued any of the other 49 states in addition to California.
- (c) Only municipal bonds from entities with a minimum rating in a ratings category "A," its equivalent, or better by a NRSRO

**11. Negotiable Certificates of Deposit** – CDs 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. Restrictions on use of negotiable CDs are as follows:

- (a) Maturity shall not exceed 5 years.
- (b) No more than 30% of the City's portfolio may be invested in negotiable CDs.
- (c) Only negotiable CDs from companies with a minimum rating in a ratings category "A", "A-1," its equivalent, or better by a NRSRO

**12. Money Market Funds** – Funds that are 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 will either: (i) attain the highest ranking letter or numerical rating provided by at least two NRSROs or (ii) have retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience managing money market mutual funds and with assets under management in excess of \$500,000,000. Restrictions on use of money market funds are as follows:

- (a) No more than 20% of the City's portfolio may be invested in money market funds.

**13. Local Government Investment Pools (LGIPs)** – Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (r) of California Government Code Section 53601, inclusive. Each share will represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the shares will maintain a stable net asset value (NAV) and the joint powers authority issuing the shares will have retained an investment adviser that meets all of the following criteria:

- (a) The adviser is registered or exempt from registration with the Securities and Exchange Commission.
- (b) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q) Government Code Section 53601, inclusive.

- (c) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

14. **Asset-Backed Securities (ABS)** – Includes mortgage passthrough securities, collateralized mortgage obligations, mortgage-backed or other pay-through bonds, equipment lease-backed certificates, consumer receivable passthrough certificate, or consumer receivable-backed bonds. Restrictions on use of ABS are as follows:

- (a) Maturity shall not exceed 5 years.
- (b) No more than 20% of the City’s portfolio may be invested in ABS.
- (c) Shall be issued by an issuer having an “A” or higher rating for the issuer's debt as provided by an NRSRO and rated in a rating category of “AA,” its equivalent, or better by an NRSRO

15. **Supranationals** - United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Restrictions on use of supranationals are as follows:

- (a) Maturity shall not exceed 5 years.
- (b) No more than 30% of the City’s portfolio may be invested in supranationals.
- (c) Obligations issues by supranationals will be rated in a rating category “AA,” it equivalent, or better by a NRSRO.

16. **Community Sustainability Program Funds** – Funds placed in a money market account with a full service bank that has a branch in Paso Robles. The amount deposited shall not exceed 10% of the City’s long-term investment portfolio at time of placement. The funds shall be used to make local loans and lines of credit as follows:

- (a) Business working capital lines of credit
- (b) Business term loans
- (c) Business CRE and construction loans
- (d) Home equity lines/loans
- (e) Residential home loans or refinance mortgages
- (f) Residential construction loans

## **X. INVESTMENT RESTRICTIONS**

Idle funds of the City may not be invested in the following instruments:

1. Reverse repurchase agreements;
2. Financial futures and options;
3. Mortgage-derived, interest only strips;
4. Small Business Administration notes; or
5. Any other investment instrument specifically restricted by State Code and/or regulation

## **XI. MAXIMUM MATURITY**

All investments must have a final stated maturity of no more than five (5) years from the date of purchase except that the City may purchase up to 15% of its entire portfolio in U.S. Treasuries and Federal Agencies having maturities between five and seven years from the purchase date except as provided for Section IX.

## **XII. INTERNAL CONTROL**

The City Treasurer will establish a process of investment transaction review by the Director of Administrative Services or their designee. This internal control review shall ensure compliance with policies and procedures.

## **XIII. CUSTODY OF SECURITIES**

All investments of the City shall have the City of Paso Robles as the registered owner or shall be kept in the custody of the City or the trust/custodial department of its designated third-party, safekeeping institution. If securities are kept by a safekeeping institution, the City shall have access to buy and sell such securities independently of any broker.

While in safekeeping, the City shall have on file from its designated safekeeping institution, an executed contract for said safekeeping services, which specifically requires the City's securities to be held separately from all other securities and funds on deposit with the trust/custodial department. The trust/custodial department shall be required to send the City a monthly statement of what is being kept, including an estimate of the current market valuation.

All securities will be received and delivered via electronic bank transfers and will not be part of the standard accounts payable payment processing.

## **XIV. REPORTING**

The City Treasurer shall report monthly to the City Manager and City Council the type of investment, financial institution, date of maturity, amount of investment, and rate of interest for all investments. Per Government Code Section 53607, since authority has been delegated to the City Treasurer, the monthly report shall also include transactions.

The City Treasurer shall also report monthly whether or not any funds, investments or programs are managed under contract by outside parties. If such contracts exist, a description of the investments shall be included along with the market values of the funds, investments or programs under contract by said parties.

The City Treasurer shall also include in the monthly report a statement as to whether or not the City can meet its cash flow requirements during the next six (6) months.

The current value of all investments shall be reported annually according to Governmental Accounting Standards Board, GASB No. 31.

## **XV. POLICY REVIEW**

The City Treasurer shall submit the Investment Policy to the City Council for review and re-confirmation at a public meeting from time to time.



**Exhibit “A”**

**List of Approved Broker/Dealers**

Mutual Securities – Renee Molina

Piper Jaffray & Co. – Victor Ume-Ukeje

Stifel Investment Services – Bill Blackwill

## **Exhibit “B”**

### **Investment Strategy**

1. Investment Pools, i.e. Local Agency Investment Fund (LAIF) will be used to provide liquidity for the City’s daily cash needs; and
2. Investments shall be made with maturities from one (1) to five (5) years.
3. Investments shall be made with as much diversification as practical.
4. The credit worthiness of non-government issuers shall be assessed and monitored vigilantly.
5. Total return of portfolio shall be measured against the 1 to 5 Treasury Index.
6. Portfolio duration and sector weightings shall be actively managed to capture best relative value.