

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 under the prudent man rule (Civil Code Section 2261, et seq).

II. OBJECTIVE

The Objective 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.

III. 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 53635 while following these guidelines:

1. 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.

2. Investments shall be diversified among institutions, types of instruments, and maturities in order to maximize safety and yield with market conditions; except that no investment shall be purchased with a final stated maturity of more than five (5) years from

the purchase date except as provided for in Section V-5. Long-term maturities shall not represent a significant percentage of the total portfolio and shall be specifically limited as per Section 3 under Allowable Investment Instruments. Security investments currently held by the City that met investment policy restrictions at the time of purchase shall be deemed in compliance.

3. Certificates of deposit in local financial institutions shall be encouraged; provided that the criteria for safety, and liquidity are equal to or greater than that of non-local financial institutions and the interest rate earned is within one quarter of one percent (0.25%) of the rate that may be earned from any other financial institution outside of Paso Robles.

4. Investments shall not knowingly be made in any financial institution that practices or supports directly or indirectly through its actions discrimination on the basis or race, religion, color, creed, natural or ethnic origin, age or sex or physical ability.

5. Investments shall be made only in securities for which market value information is generally available.

6. 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.

7. The City Treasurer shall report monthly, in addition to the information required in Section 6 above, 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.

8. 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.

9. Pursuant to Government Code, Section 53647, the Director of Administrative Services shall allocate interest earned to all appropriate funds. No fund with an ending monthly cash balance of less than \$10,000.00 will receive interest unless required otherwise by law. All interest not otherwise allocated shall remain in the General Fund.

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

11. 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 whose number shall not exceed five (5). List is attached herewith as Exhibit "A".

12. Selling securities prior to maturity is only acceptable when the sale clearly enhances the yield (value). If traded at a loss, the trade must enhance yield on a total return basis.

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

14. Whenever practical, cash should be consolidated and invested on a pooled concept basis. Interest earnings shall be allocated monthly pursuant to paragraph 9 of this section.

15. The City Treasurer shall include notification of all trade transactions whether buy or sell, to the Director of Administrative Services or his/her designated staff person.

16. Investment purchase transactions, excluding State of California Local Agency Investment Fund transactions and the proceeds from bond sales, in any given month shall not exceed, in aggregate, twenty percent (20%) of the City's investment portfolio as reported for the prior month on a "book value" basis.

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

18. The City will review annually its investment portfolio. Said review will be conducted by an ad hoc committee comprised of the two local bank officials (one official being from the City's current banking institution), an official from the City's custodial services institution, a local investment broker and two ad hoc appointees from the City Council. The ad hoc committee will report its findings to the City Council.

19. Should an occasion arise that the elected City Treasurer is unable to perform the duties as prescribed by the municipal code relating to the investment of surplus City monies, a "Plan" shall be developed to address the ongoing investment needs of the City. The Plan is attached herewith as Exhibit "B".

IV. Investment Criteria

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 immediately accessible without risk of losing some portion of principal or interest on the

investment. Most investment instruments available to public agencies are highly liquid with the exception of Time Certificates issued by banks and savings and loan institutions that have fixed maturities.

3. **Yield** - Yield is the potential dollar earnings an investment can provide, sometimes described as the rate of return. Attempts should be made to obtain the highest yield possible by the City provided the criteria for safety and liquidity are met.

V. Allowable Investment Instruments

1. Time Certificates of Deposit - TCD's 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. Purchases of negotiable certificates of deposit shall not exceed 30% of the City's invested funds. 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, 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 Acceptance (BA's) are bills of exchange or time drafts which are drawn on and accepted by a commercial bank and are eligible for purchase by the Federal Reserve System. By its acceptance, the bank becomes primarily liable for the payment of the draft at its maturity. This bank liability makes the banker acceptance a readily marketable investment. The restrictions on use of banker's acceptances are as follows:

- (a) The City will only invest through the 15 largest banks in the United States;
- (b) Purchases of BA's may not exceed 180 days maturity;
- (c) Purchases of BA's may not exceed 40% of the City's surplus fund; and
- (d) Nor more than 30% of the City's surplus funds may be invested in BA's of any one commercial bank.

4. Treasury Bills and Notes - Those items having the full faith and credit of the federal government pledged for the payment of principal and interest and having maximum maturities of five years or less.

5. Federally Sponsored Credit Agency Securities - The City may invest in the debt securities of the following U.S. government sponsored corporate agencies without limit as to the amount invested except that only 15% may be invested in agencies with maturities between five and seven years. Otherwise maturities may not exceed five years.

- (a) Government National Mortgage Association
- (b) Federal National Mortgage Association

- (c) Federal Home Loan Mortgage Association
- (d) Federal Home Loan Bank

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. Maturities vary from 1 to 270 days. The restrictions on use of commercial paper are as follows:

- (a) Maturity shall not exceed 180 days.
- (b) Amount invested at any given time shall not exceed 10% of the investment portfolio.
- (c) Only commercial paper from companies with a rating of A1/P1 shall be purchased.

8. Corporate Bonds - Unsecured promissory note of a corporation or financial institution with a fixed maturity date that is much longer than commercial paper (generally measured in years). Restrictions on use of corporate bonds are as follows:

- (a) Maturity shall not exceed 5 years.
- (b) Amount invested at any given time may not exceed 20% of the investment portfolio.
- (c) Only corporate bonds from companies with an A+ rating better shall be purchased.
- (d) Not more than \$1 million may be purchased from any single corporate entity.

VI. 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. Zero coupon bonds
4. Small Business Administration notes
5. Or any other investment instrument specifically restricted by State Code and/or regulation.

Date of Last Review:
Committee 8/4/11
Council 9/12/11

Exhibit "A"

List of Approved Broker/Dealers

Coastal Securities – Jim Patterson
Gilford Securities – Jaime Hopkins
Mutual Securities – Renee Molina
Cantor Fitzgerald – Ben Finkelstein
Piper Jaffray & Co. – Victor Ume-Ukeje

Exhibit "B"
Incapacity Plan

1. All investment documentation shall be kept at the City Treasurer's Office at City Hall Annex.
2. All investment documentation shall be organized by type and then by investment date.
3. Maturing investments shall be deposited into the City's account with the Local Agency Investment Fund until the City Treasurer is capable of functioning efficiently (assumes that the City Treasurer's inability to perform to temporary).
4. Should the City Treasurer's inability to perform be long-term, the City should consider contracting management of its investment portfolio with a municipal investment management company.
5. A list of potential investment managers is provided as follows:

MBIA Asset Management – Gail Eichhoff
Chandler Asset Management – Kay Chandler
Piper Jaffary Inc. – Victor Ume-Ukeje
Wedbush Morgan Securites – Don Collins