



CITY OF INGLEWOOD **INVESTMENT POLICY**

POLICY:

The purpose of this document is to provide guidelines for the prudent investment of the City of Inglewood's funds and to outline the policies needed to maximize the efficiency of the City's cash management system.

The Treasurer shall invest idle public funds in a manner that recognizes that safety of principal is the top priority. The primary duty and responsibility of the Treasurer is to protect, preserve and maintain cash and investments placed in his/her trust on behalf of the citizens of the community. The second priority is liquidity. It is the duty of the Treasurer to maintain an adequate percentage of the portfolio in short-term securities which can be converted to cash if necessary to meet disbursement requirements. A high yield on investments ranks third in priority in the City's investment strategy. Yield will be considered only after the basic requirements of safety and liquidity have been met. This strategy will be carried out in conformity with state statutes, local laws, and City Council ordinances or resolutions.

SCOPE:

This investment policy applies to the following funds which are accounted by the City's:

- 1) General Fund
- 2) Special Revenue Funds
- 3) Capital Project Funds
- 4) Proprietary Funds
- 5) Trust and Agency Funds
- 6) Any new fund created by the Council, unless specifically exempted by the Council.

All monies entrusted to the Treasurer shall be invested in accordance to California Government Code Sections 53601, 53602 and 53635.

This policy shall not apply to investments held by the administrators of the City's IRS Code Section 457 deferred compensation program and bond proceeds. These funds shall be invested in accordance with the related current contractual provisions or bond covenant.

PRUDENCE:

The Treasurer shall invest public funds in the context of the "prudent person standard" which states, "investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

The Treasurer shall adhere to and be evaluated according to the aforesaid "prudent person standard" in the performance of his/her duties as the manager of public funds.

Additionally, investment officers acting in accordance with written procedures and the investment policy, and exercising due diligence shall be relieved of personal responsibility for an individual securities credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

INVESTMENT OBJECTIVE:

It is the City's policy to permit selection of investments from among those authorized by the California Government Code Sections 16429.1 and 53600-53684. The primary objectives, in priority order of investment activities, shall be:

Safety:

Safety of principal is the foremost objective of the investment program. The Treasurer shall seek to avoid capital losses for all investment transactions made. The portfolio shall be diversified to insure that potential losses on the individual securities do not exceed the income generated from the remainder of the portfolio. Additionally, the Treasurer shall insure the safety of invested funds by limiting interest and credit rate risks.

Interest Rate Risk:

The risk that the market value of the portfolio securities will fall due to an increase in general interest rates:

Interest rate risk will be mitigated by:

- i. Structuring the City's portfolio so that securities mature to meet the City's cash demands for ongoing operations, thereby precluding the need to sell securities on the open market prior to their maturity.
- ii. Investing primarily in shorter-term securities.

Credit risk:

The risk of loss due to the failure of the security or backer.

Credit risk will be mitigated by:

- i. Limiting investments to the types of securities authorized by this policy.
- ii. Using financial institutions that have been pre-qualified by the Investment Committee.
- iii. Diversifying the investment portfolio.

Liquidity:

An adequate percentage of the portfolio shall be maintained in liquid short-term securities that can be converted to cash if necessary to meet disbursement requirements. In accordance with Government Code Section 53601, no investment shall be made in any security that at the time of the investment has a remaining term in excess of five years unless the Council has granted express authority to make that investment.

In addition, it is the City's policy that investments with remaining terms to maturity in excess of one year shall have an active secondary market.

Yield:

Yield should become a consideration only after the basic requirements of safety and liquidity have been met.

Return on Investment:

The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City's risk constraints, IRS arbitrage rebate requirements, the cash flow characteristics of the portfolio and State statutes, local laws, ordinances or resolutions that restrict investments. The City's portfolio management approach is one that prohibits speculation based on anticipated interest rate movements. The City's approach is to buy investments with the intention of holding the investment to maturity.

Legal Requirement:

The City's investment portfolio shall be designed with the objective of meeting all legal requirements set forth by Federal, State and local laws.

DELEGATION OF AUTHORITY:

The responsibility for the investment program rests with the Treasurer. The Treasurer will be responsible for all transactions undertaken and has established a system of internal controls and standard operating procedures to regulate the activities of subordinate officers. The Deputy Treasurer(s) is responsible for these transactions in the absence of the Treasurer.

INVESTMENT TRAINING:

The Treasurer and Deputy Treasurer(s) shall attend at least one training session within twelve months after taking office or being appointed, and at least annually thereafter. The training session should be sponsored by a professional organization, such as, but not limited to: Government Finance Officers Association (GFOA), California Society of Municipal Finance Officers (CSMFO), Municipal Treasurers Association of the United States & Canada (MTA, US&C), California Municipal Treasurers Association (CMTA). Training must include some or all of the following components: investment controls, security risks, strategy risks, market risks, and compliance with Federal, State and local laws.

ETHICS AND CONFLICTS OF INTERESTS:

The Treasurer shall avoid any transaction that might impair public confidence in the City's ability to govern effectively. Officers and employees involved in the investment process shall refrain from 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 Council any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City of Inglewood, particularly with regard to the time of purchase and sales.

AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS:

In selecting financial institutions for deposits or investment of City funds, the Treasurer shall consider the credit worthiness of institutions. The Treasurer shall continue to monitor, by obtaining and reviewing currently available financial statements, financial institutions' credit characteristics and financial history throughout the period in which City funds are deposited or invested. Additionally, the Treasurer shall maintain a list of financial institutions authorized to provide investment services.

In addition, if utilized, a list will also be maintained of approved security broker/dealer selected by credit worthiness who is authorized to provide investment services in the State of California. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1. No public deposit shall be made except in a qualified public depository as established by the State of California.

A copy of the City's Investment Policy shall be provided to each approved financial institution or broker/dealer the City conducts business with. A signed agreement from each, agreeing to abide by the City's Investment Policy, shall be maintained by the Treasurer.

AUTHORIZED AND SUITABLE INVESTMENTS:

Treasuries:

Securities that represent direct obligations of the U.S. Treasury can be of three types: Bills, Notes, or Bonds. They differ based on the term to maturity and the method of interest payment. Treasuries are actual obligations of the U.S. Government and, as such, are backed by the "full faith and credit" of the Federal government. There is no portfolio limit for this investment vehicle as authorized in Government Code Section 53601(b).

Agencies:

Securities that represent an obligation of several agencies or instrumentalities which administer selected lending programs of the U.S. Government. These agencies include the Federal Home Loan Mortgage Corporation (FHLMC) or (Freddie Mac), Government National Mortgage Association (GNMA or Ginnie Mae), Federal Land Bank and Federal Farm Credit Bank. These securities are obligations of the agencies themselves, but there is an implied guarantee by the U.S. Government. Obligations of these agencies are backed by large pools of residential mortgage loans or agricultural real estate loans. There is no limitation for this investment as authorized in Government Code Section 53601(e).

Certificates of Deposit:

These instruments are placed with commercial banks or savings and loan associations. They allow the City the flexibility to select the exact amount and day of maturity. CD's are subject to collateralization requirements for any amounts in excess of \$100,000. Collateralization requirements for amounts exceeding \$100,000 will be 110% of the deposit in government securities or 150% of pools of mortgage loans. There is no portfolio limit for this investment vehicle as authorized in Government Code Section 53649.

Negotiable Certificates of Deposits:

These are high-grade instruments, paying a higher interest rate than certificates of deposit. They are liquid because they can be traded in the secondary market. NCD's are unsecured obligations of the financial institution, bank, or savings and loan, bought at par value with a promise to pay face value, plus accrued interest, at maturity. Local agencies may not invest more than 30% of their surplus monies in NCD's. Maturities range from two weeks to five years as authorized in Government Code Section 53601(h).

Bankers Acceptances:

These instruments essentially are a bill of exchange or time draft drawn on and accepted by a commercial bank. They are used to facilitate the shipment and storage of goods both internationally and within the United States. They are collateralized by the goods being shipped as well as the credit worthiness of the issuing institution. These instruments may not exceed 40% of the City's portfolio. They range in maturities from 30 to 270 days as authorized in Government Code Section 53601(f).

Commercial Paper:

These instruments are issued by leading industrial and financial firms to raise working capital. These negotiable instruments are purchased at a discount to par value. Local agencies are permitted by state law to invest in commercial paper of "prime quality" of the highest ranking or of the highest better and numerical rating as provided by a nationally recognized rating service. Investments may not exceed 30% of the City's portfolio. Maturities range from 3 to 180 days as authorized in Government Code Section 53601(g).

Local Agency Investment Fund (LAIF) Demand Deposits :

LAIF is a special fund in the State Treasury created by Assembly Bill 3107, passed in 1977. This law permits a local government official, with the consent of the governing body of that agency, to remit or invest money in its treasury not required for its immediate need, to the State Treasurer for deposit in this fund. Principal may be withdrawn on a one-day notice. Interest earned is paid quarterly. The fees charged are limited to one-quarter of one percent of the earnings of the fund.

Passbook Savings Account:

These accounts pay a low rate of interest, compounded daily on their balances. This account allows the transfer of money from checking to savings and earn short-term on odd amounts of money that are not available for longer investments.

Repurchase and Reverse Repurchase Agreements:

These investments are essentially agreements between the local agency and seller for the purchase of securities on or before a specified date for a specified amount. Investments in a reverse repurchase agreement shall be made only upon prior approval of the Council as authorized in Government Code Section 53635. There is no legal limitation on the amount of Repurchase Agreement as authorized in Government Code Section 53601(i).

Mutual Funds:

These investment instruments essentially represent "shares of beneficial interests issued by diversified management companies." Mutual Funds qualifying for City investment must restrict their portfolios to issues approved by the same state investment statute that defines investment alternatives for Cities. Additionally, these Mutual Funds must adhere to Federal statutes regarding the size of the Mutual Fund and its safety. Investment in this vehicle may not exceed 15% of the City's portfolio as authorized in Government Code Section 53601(k).

Medium Term Notes:

These investment instruments represent an obligation of a domestic corporation or depository institution having a rating of "A" or better by a nationally recognized rating service. Notes may not have a maturity in excess of five years. Investments in medium term notes may not exceed 30% of the City's portfolio as authorized in Government Code Section 53601(j).

Certain Asset-Backed Securities:

These investments include mortgage pass-through securities, collateralized mortgage obligations, mortgage-backed or other pay-through bond or equipment lease-backed certificates of a maximum of five years maturity. Securities eligible for investment under this classification shall be issued by an issuer's debt as provided by a nationally recognized rating service and rated in a category of "AA" or its equivalent or better by a nationally recognized rating service. Investment in this vehicle cannot exceed 20% of the City's portfolio and is authorized in Government Code Section 53601(n).

INELIGIBLE INVESTMENTS AND PROHIBITED TRANSACTIONS:

1. Borrowing for investment purposes (or leverage).
2. Reverse Repurchase Agreements, as defined by California Government Code Sections 53601(i) and 53635(i).
3. Investments known as structured notes (e.g. inverse floaters, averaged floaters, structured certificates of deposit, equity-linked securities).
4. Investment in any instrument that is commonly considered a "derivative" instrument (e.g. options, futures, swaps, caps, floors, collars). No investment prohibited by Government Code Sections 53601.6 or 53631.5 shall be permitted.
5. All investments shall be in U.S. dollar denominated.
6. Securities that are downgraded below the minimum acceptable rating levels must be reviewed for possible sale within a reasonable amount of time.

COLLATERALIZATION:

Collateralization will be required on two types of investments:

(1) Certificates of deposits (2) Repurchase agreements. Reverse repurchase agreement investments must have Council approval. By state law, any bank or savings and loan doing business with a government agency must provide dedicated collateral for any governmental deposits it holds in excess of \$100,000 insured by The Federal Deposit Insurance Corporation or Federal Savings & Loan Insurance Corporation. The collateralization process requires that the securities that serve as collateral be placed in a safekeeping account established with the Federal Home Loan Bank or bank's trust department approved by the Administrator of Local Agencies (A State of California Official). The collateral must consist only of the following securities:

- i. **Governmental Securities**
Federal, State, or Local government obligations with a market value of at least 10% in excess of the deposits being secured.
- ii. **Mortgage Loans**
These mortgage loans must have a market value of at least 150% of the value of the deposits being secured.

Collateral will always be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership, safekeeping receipt, must be supplied to the City and retained by the Treasurer.

SAFEKEEPING:

All security transactions, including collateral agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian designated by the Treasurer.

Repurchase agreements may be entered into on a safekeeping basis only if a master agreement with the bank or trust department providing the safekeeping is first obtained and it very clearly establishes that the bank/trust is acting as third party agent for the Treasurer, not the financial institution arranging the repurchase agreements. Such third party safekeeping arrangements will be documented with a signed agreement between the Treasurer and that the financial institution does not have access to them under any circumstances.

All securities owned by the City will be held by a third party except the collateral for time deposits in banks and savings and loans. Collateral for time deposits in banks should be held in the City's name in the bank's Trust Department, or alternately in the Federal Reserve Bank. Collateral for time deposits in savings and loans is held by the Federal Home Loan Bank or an approved Agent of Depository.

DIVERSIFICATION:

It is the policy of the City to diversify its investment portfolio to avoid incurring unreasonable and avoidable risks or loss resulting from over concentration of assets in a specific maturity, insurer, or class of securities, with the exception of U.S. Treasury Securities and authorized pools. No more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution, with the exception of U.S. Treasury Securities and authorized pools. No more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

MAXIMUM MATURITIES:

California Government Code Section 53601 prohibits investments in securities that at the time of investment have a term of maturity in excess of five years unless the Council has granted authority.

To the extent possible, the Treasurer will attempt to match its investments with anticipated cash flow requirements.

INTERNAL CONTROL:

The City's independent auditors shall review annually the City's investment internal controls. The auditor will review those controls designed to prevent loss of public funds arising from fraud, employee error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by employees and/or officers of the City.

Controls Deemed Most Important - Include:

- 1) Control of collusion
- 2) Separation of duties
- 3) Separating transaction authority from accounting and recordkeeping
- 4) Custodial safekeeping
- 5) Clear delegation of authority
- 6) Specific limitations regarding securities losses and remedial action
- 7) Written confirmation of telephone transactions
- 8) Minimizing the number of authorized investment officials
- 9) Documentation of transactions and strategies
- 10) Code of ethics and standards

PERFORMANCE STANDARDS:

The City's investment portfolio will be designed with the objective of exceeding the average Federal Funds rate. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles.

The Treasurer's objective is to safely maximize the City investments at all times.

REPORTING:

The Treasurer shall submit a monthly investment report to the Council. This report shall disclose the following:

- Purpose of report
- Investments by totals
- Date of purchase
- Description of investment(s)
- Cusip number
- Coupon
- Maturity date
- Ratings
- Market yield
- Market price
- Accrued interest
- Par value
- Cost basis
- Market value

COMPETITIVE BIDDING REQUIREMENT:

All purchases of investments will be placed after receiving competitive quotes from at least two financial institutions, broker/dealers, investments pools or combination thereof. Quotes will be accepted either written/faxed or electronically, or a combination thereof.

INVESTMENT PROCEDURES and POLICY REVIEW:

- The Treasurer shall make investments using investment strategies that preserve the cash flow requirements of the City.
- The Treasurer shall regularly review the Investment Policy, and shall incorporate any State of California Legislative actions that impacts allowable investment type, maturities, or per-cent allocation.
- The Treasurer shall regularly review banking procedures related to investments.

- **The Treasurer shall regularly review investment reports submitted to the City by the Local Agency Investment Fund (LAIF), Trustees, and any other entities engaged to invest funds on behalf of the City.**
- **The Treasurer shall submit the Investment Portfolio and Investment Policy as required with the passage of Chapter 687, Statutes of 2000 (AB 943, Dura), to the California Debt and Investment Advisory Commission for review and evaluation of City investment practices.**

California Debt and Investment Advisory Commission (CDIAC) was created in 1981 with the passage of Chapter 1088, Statutes of 1981 (AB 1182, Costa). This legislature established CDIAC as the state's clearinghouse for public debt issuance information and required it to assist state and local agencies with the monitoring issuances, and management of public debt. The Commission's name was changed to the California Debt and Investment Commission with the passage of Chapter 833, Statutes of 1996 (AB 1197, Takasugi) and its mission was expanded to cover public investments.

INVESTMENT POLICY ADOPTION

The City's investment policy shall be adopted by resolution of the Council and any modifications made thereto must be approved by the City Council.

This Investment Policy and its guidelines supersede any previous Investment Policy.

Wanda M. Brown, CCMT, CMFA, MBA, PhD, PhD
City Treasurer

October 21, 2003

This policy was duly affirmed by the authority of the City Council of the City of Inglewood on the _____ day of _____, 2003

Mayor, Roosevelt F. Dorn

ATTEST:

City Clerk, Yvonne Horton