

CITY OF PORT HUENEME	ADMINISTRATIVE POLICIES AND PROCEDURES
POLICY #: <u>C-008</u> ISSUED: <u>10-07-13</u> EFFECTIVE: <u>10-07-13</u> CANCELLATION DATE: <u>N/A</u> SUPERSEDES: <u>10-02-12</u>	SUBJECT: INVESTMENT POLICY

**POLICY**

It is the policy of the City to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to all state and local statues governing the investment of public funds.

This Investment Policy is set forth by the City of Port Hueneme (the City) for the following purposes:

1. To establish a clear understanding for the City Council, City Management, responsible employees, citizens and third parties of the City's objectives, policies and guidelines for the investment of idle and surplus funds.
2. To offer guidance to investment staff and any external investment advisors on the investment of City funds. Any bank, savings association, federal financial association, or federally insured industrial loan company receiving City money must have an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisorial agency of its record of meeting the credit needs of California's communities, including low-and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code (Government Code 53635). The City Council has delegated, by resolution, the authority to invest to the City Treasurer subject to the limitations set forth in the Investment Policy and Investment Guidelines.
3. To establish a basis for evaluating investment results.

**OBJECTIVES**

The objectives of this investment policy are, in order of priority:

1. To ensure safety of invested funds.

2. To assure ongoing compliance with all Federal, State and local laws governing the investment of moneys under the control of the City Treasurer to maintain sufficient liquidity to meet cash flow needs.
3. To attain a "market average rate of return" consistent with the primary objectives of safety and liquidity.

## **PRUDENCE**

1. The Prudent Person Standard shall be used by investment officials, and shall be applied in the context of managing an overall portfolio.
2. **The Prudent Person Standard:** Governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, and 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. Within the limitations of this section and considering individual investments as part to an overall strategy, a trustee is authorized to acquire investments as authorized by law.

When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the primary objective of a trustee shall be to safeguard the principal of the funds under its control. The secondary objective shall be to meet the liquidity needs of the depositor. The third objective shall be to achieve a return on the funds under its control.

## **ETHICS AND CONFLICTS OF INTEREST**

All bond issue providers including but not limited to underwriters, bond counsel, financial advisors, brokers and dealers, will disclose any fee sharing arrangements or fee splitting to the City Manager prior to the execution of any transactions. The providers must disclose the percentage share and approximate dollar amount share to the City prior to the execution of any transactions.

## **OPERATIONS AND PROCEDURAL MATTERS**

### **SCOPE**

This investment policy applies to all financial assets and investment activities of the City. These funds are accounted for in ALL City entity's Annual Financial Reports and include:

1. General Fund
2. Special Revenue Funds
3. Enterprise Funds
4. Capital Projects Fund
5. Debt Service Funds
6. Redevelopment Successor Agency
7. Housing Successor Agency
8. Housing Authority
9. Surplus Property Authority

The following are exceptions:

1. The City's Deferred Compensation Plan is excluded because it is managed by a third party administrator and invested by individual plan participants.
2. Proceeds of debt issuance shall be invested in accordance with the investment objectives of the City as set forth in this policy; however, such proceeds are invested in accordance with permitted investment provisions of their specific bond indentures. All deviations from investments authorized in this policy for other City funds shall be disclosed to the City Council at the time bond documents are considered for approval. Proceeds of debt issuance shall be subject to the operational and reporting requirements of this policy.

### **DELEGATION OF AUTHORITY**

1. Authority to manage the City's investment program is derived from the California Government Code Sections 53600 *et seq.*
2. The City of Port Hueneme Municipal Code, Chapter 4, Section 2301 and Chapter 6, Section 2502, authorizes the City Treasurer to invest funds in accordance with California Government Code Section 53600 *et seq.* The Treasurer shall be responsible for all transactions undertaken by the City's internal staff, and shall establish a system of controls to regulate the activities of internal staff and external investment advisers.
3. In the absence of the City Treasurer, investment responsibilities are hereby delegated to the Acting Treasurer who shall be (a) the Budget and Finance Manager, and in his/her absence (b) the City Manager.

### **AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

1. The Treasurer will maintain a list of financial institutions authorized to provide investment services to the City pursuant to Government Code Section 53601.5. Within this Government Code authority, institutions eligible to transact investment business with the City include:
  - a. Primary government dealers as designated by the Federal Reserve Bank.
  - b. Nationally or state-chartered banks
  - c. The Federal Reserve Bank, and
  - d. Direct issuers of securities eligible for purchase by the City.
2. Selection of financial institutions and broker/dealers authorized to engage in transactions with the City shall be at the sole discretion of the City.
3. The Treasurer shall obtain information from qualified financial institutions to determine if the institution makes markets in securities appropriate for the City's needs, can assign qualified sales representatives and can provide written agreements to abide by the conditions set forth in the City of Port Hueneme Investment Policy. Investment accounts with all financial institutions shall be standard non-discretionary accounts and may not be margin accounts.
4. All financial institutions which desire to become qualified bidders for investment transactions must supply the Treasurer with the following:
  - a. Audited financial statements for the institution's three most recent fiscal years.
  - b. At least three references from California local agencies whose portfolio size, investment objectives and risk preferences are similar to the City's.
  - c. A statement certifying that the institution has reviewed the California Government Code Section 53600 *et seq.* and the City's Investment Policy and that all securities offered to the City shall comply fully and in every instance with all provisions of the Code and with this Investment Policy.
5. The signatures of two individuals shall be required for the opening and closing of any bank account and broker account (the Treasurer or City Manager, and the Mayor or Mayor Pro Tem). The Accounting and Revenue Manager, who is independent of the investment function, shall keep a record of all opened and closed accounts. On an annual basis, the Accounting and Revenue Manager shall provide this list of accounts to the City's independent auditor.

6. Public deposits shall be made only in qualified public depositories within the State of California as established by State law. Deposits shall be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, shall be collateralized with securities in accordance with State law.
7. Selection of broker/dealers used by external investment advisers retained by the City shall be at the sole discretion of the investment advisers.

### **DELIVERY VS. PAYMENT**

All investment transactions of the City shall be conducted using standard delivery-vs.-payment procedures.

### **SAFEKEEPING OF SECURITIES**

To protect against potential losses by collapse of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all securities owned by the City shall be held in safekeeping by a third party bank trust department, acting as agent for the City under the terms of a custody agreement executed by the bank and by the City. However, as to the minimum legal requirement per Government Code Sections 53601 and 53608, as long as the securities for safekeeping are in the name of or under the control of the agency and kept in a legally separate trust department, they can be held by the same firm from which they were purchased.

### **PERMITTED INVESTMENTS AND PORTFOLIO RISK MANAGEMENT**

All investments shall be made in accordance with the restriction of Sections 53600 *et seq.* of the Government Code of California and as described within this Investment Policy. Permitted investments under this policy shall include the following investments pursuant to the limitations set forth in Government Code Section 53601.

1. Savings accounts and other time accounts of Commercial Banks or Savings and Loans, Commercial Banks insured by the Federal Deposit Insurance Corporation.
2. Money Market Mutual Funds that invest in shares of beneficial interest (mutual funds) issued by diversified management companies investing in securities/obligation authorized by California Government Code Section 53600 *et seq.*, and complying with Section 53630, are permitted investments.
3. Certificates of Deposit of Commercial Banks or Savings and Loans insured by Federal Deposit Insurance Corporation.

4. Treasury Bills, Treasury Notes, and Treasury Bonds which are guaranteed by the full faith and credit of the United States of America with a maturity of less than four years. All securities must be purchased on a full delivery vs. payment basis where the securities are delivered at the time the City releases funds for their purchase.
5. U.S. Agencies including, but not limited to, the Federal Farm Credit Bank System (FFCB), the Federal Home Loan Bank (FHLB), the Federal Home Loan Mortgage Corporation (FHLMC), the Student Loan Mortgage Administration (SLMA), and the Federal National Mortgage Association (FNMA) and those insured by the Federal Housing Administration (FHA). The purchase of instruments of, or issued by a federal agency or a United States government sponsored enterprise will be limited to a maximum maturity of five years.
6. Local Agency Investment Fund (L.A.I.F.) Pool.
7. County of Ventura Investment Pool.
8. Negotiable Certificates of Deposit (NCDs). NCD's must be issued by institutions which have long term debt rated "A" or higher by Standard & Poor's or "A2" by Moody's; and/or have short term debt rated at least A1 by Standard & Poor's or P1 by Moody's. Maturity shall not exceed 180 days and no more than 20 percent of the total portfolio may be invested in NCDs.
9. Banker's Acceptances, provided they are issued by institutions, the short term obligation of which, are rated a minimum of P1 by Moody's Investor Services (Moody's) or A1 by Standard & Poor's (S & P). Banker's Acceptances must be eligible for purchase by the Federal Reserve System, maturity shall not exceed 180 days and no more than 20 percent of the total portfolio may be invested in Banker's Acceptances.
10. Commercial Paper, provided the issuer is a corporation organized and operating in the United States with assets in excess of \$500 million, the paper is rated a minimum of P1 by Moody's and A1 by S & P, the maturity does not exceed 180 days from the date of purchase, and no more than 15 percent of the portfolio is invested in Commercial Paper.
11. Mutual Funds that invest solely in United States Treasury instruments with an average maturity of less than two years, provided they have triple "A" ratings by Moody's and S & P, their fund shall have an Advisor who is registered with the Securities and Exchange Commission, or which is exempt from such registration and any such fund shall be registered with the Securities and Exchange Commission. Additionally, any mutual fund considered for investment shall have a minimum of \$500 million in total portfolio value with no more than 10 percent of the portfolio invested in any one fund and the City's investment in all mutual funds shall not exceed 15 percent of the City's total portfolio.

### **PROHIBITED INVESTMENTS AND PRACTICES**

1. Any investment not authorized by Government Code Section 53600 et seq.
2. Investment in mortgage-backed bonds and collateralized mortgage obligations (CMO's) is prohibited, even if such bonds are issued by agencies of the United States Government.
3. State law notwithstanding, any investments not specifically described herein including, but not limited to, medium term corporate notes, mutual funds (other than government money market funds as described in the proceeding section (#11), unregulated and/or unrated investment pools or trusts, except as specified above, futures and options, strips, variable rate securities and securities with embedded options.
4. Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.
5. Purchasing or selling securities on margin is prohibited.
6. The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited.
7. Borrowing for investment purposes is prohibited.
8. Any investment that could result in zero interest accrual if held to maturity.

### **MONTHLY REPORTING**

A comprehensive investment report shall be submitted by the Treasurer to the City Manager and the City Council within 30 days of the last day of the month, to be agendaized for official action at the first regular Council meeting thereafter. The monthly Treasurer's report shall disclose, at a minimum, the following information:

- A list of all investments owned by the City,
- The type or kind of each investment
- The issuer of each investment,
- The date of each investment's maturity,
- The par and dollar amount invested for each security,
- The credit quality, as determined by one or more nationally recognized credit rating services, of each investment,
- Standard & Poors or Dunn & Bradstreet Rating,
- Cash held by the City,
- A statement as to whether the City's investments comply with this Policy, and if not, why not,

- A statement of the City's ability to meet its expenditure requirements for the next six months.

### **LIMIT ON TERM OF MATURITY**

The City Finance Director or his/her representative is not to invest any City monies in investments allowed under this policy, which have a term remaining to maturity in excess of five years from the term of investment, unless the City Council has granted express authority to make such investment. The City Finance Director must request authority from the legislative body prior to the date of investment.

### **INTERNAL CONTROLS**

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. Internal controls shall be designed to provide reasonable assurance that these objectives are met. Internal controls shall be in writing and shall address the following points: control of collusion, separation of transaction authority from accounting and record keeping, safekeeping of assets and written confirmation of telephone transactions for investments and wire transfers.

### **ANNUAL AUDIT**

The Treasurer shall establish an annual process of independent review by an external auditor to assure compliance with internal controls.

### **ANNUAL REPORTING**

The investment policy may be reviewed and adopted annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends.

  
**CYNTHIA HAAS**  
**CITY MANAGER**