

# City of Indian Wells

## Statement of Investment Policy

Re-adopted on April 16, 2015

### Policy

It is the policy of the City of Indian Wells to invest public funds in a manner, which will provide the maximum security of the City's capital while meeting the daily cash flow demands of the City. The policy conforms to all state and local statutes governing the investment of public funds; and beyond that, to maximize return within an acceptable and defined level of risk. The City's policy is to deposit and invest public funds in a manner that shall provide:

- Safety of principal
- Liquidity to meet all of the City's obligations and requirements that may be reasonably anticipated
- A risk-based market rate of return

This policy intends to provide guidelines for the prudent investment of the City's temporarily idle cash in all Funds, and outline the policies for maximizing the efficiency of the City's cash management system.

### Scope

This Investment policy applies to all financial assets of the City of Indian Wells. These funds are accounted for in the City's Comprehensive Annual Financial Report and include:

- The General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Agency Funds

Included in these funds are the following Component Units of the City of Indian Wells; and, accordingly are encompassed by this investment policy:

- The City of Indian Wells Successor Agency
- The City of Indian Wells Housing Authority
- The City of Indian Wells' Fire Access Maintenance District
- The City of Indian Wells Lighting and Landscaping District(s)
- The City of Indian Wells Assessment District(s)

## Fiscal Prudence

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, direction and intelligence exercise in the management 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.

It is the City's full intent, at the time of purchase, to hold all investments until maturity in order to ensure the return of all invested principal. Staff anticipates market prices of securities purchased will vary depending on economic conditions, interest rate fluctuations, or individual security credit factors. Such temporary variations in market value will inevitably result in measurable gains or losses at any specific point in time.

The City Treasurer is assigned to manage the investment portfolio, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence. The City Treasurer shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

## Objective

The principle factors of Safety, Credit Risk, Market Rate Risk, Liquidity and Return on Investment shall be taken into consideration, in the specific order listed, when making investment decisions.

1. **Safety of Principal** - Safety of principal is the foremost objective of the investment program. Investments of the City of Indian Wells seek to ensure the preservation of capital in the overall portfolio. To obtain this objective, the City will mitigate credit risk and interest rate risk.
2. **Credit Risk** - Credit risk is the risk of loss due to the failure of the issue of a security. Credit risk will be mitigated by:
  - a. Limiting investments to the safest types of securities
  - b. By pre-qualifying the financial institutions with which it will do business
  - c. By diversifying the investment portfolio in order that potential losses on individual securities do not unduly harm the City's capital base and cash flow.
3. **Market Rate Risk** - Market Risk, defined as market value fluctuations due to overall changes in interest rates shall be mitigated by limiting the average maturity of the investment portfolio to less than 5years, with a maximum maturity of any one security of 10 years. The portfolio shall be structured based on liquidity needs so as to avoid the need to sell securities prior to maturity.

4. **Liquidity** - The investment portfolio will remain liquid to meet all operating requirements, which might be reasonably anticipated. This is accomplished by striving to have securities mature at the same time cash is needed to meet anticipated demands (static liquidity). Additionally, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).
  
5. **Return on Investment** - The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio. Return on Investment is of secondary importance compared to the safety and liquidity objectives described above. Investments are limited to relatively low risk securities, as herein defined, in anticipation of earning a fair return relative to the risk assumed. While it occasionally may be necessary or strategically prudent of the City to sell a security prior to maturity to meet unanticipated cash needs or to restructure the portfolio, this policy specifically prohibits trading securities for the sole purpose of speculating on the future direction of interest rates.

### **Delegation of Authority**

Authority to manage the investment program is derived from California Government Code Section 53600, et seq.; the City's Municipal Code; and City Council's Policy Manual.

### **Responsibilities of the Finance Department**

The Finance Department is charged with the responsibility for maintaining custody of all public funds and securities belonging to or under the control of the City and for the deposit and investment of those funds in accordance with the principles of sound treasury management, applicable laws and ordinances, and this investment policy.

### **Responsibilities of the City Treasurer**

The City Treasurer is responsible for investing all City Funds in accordance with the California Government Code, Sections 53600 et seq. and 53635 et seq. Investment practices shall conform to the prudent man rule (Civil Code Sect. 2261, et seq.).

The City Treasurer shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include reference to: safekeeping, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking service contracts. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. The City Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Treasurer.

## **Ethics and Conflicts of Interests**

Elected officials and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

Employees and Elected officials shall disclose to the City Manager any material interests in financial institutions that conduct business with the City of Indian Wells, 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 Elected officials shall subordinate their personal investment transactions to those of the City of Indian Wells particularly with regard to the time of purchases and sales.

## **Authorized Financial Dealers and Institutions**

Authorized Financial Dealers and Institutions defined under California Government Code Section 53601.5 shall be allowed to conduct business with the City. Authorized Financial Dealers and Institutions defined under California Government Code Section 53601.5 shall be defined as an institution licensed by the State of California as a broker-dealer, as defined in Section 25004 of the California Corporations Code, or a member of a federally regulated securities exchange, a national or state-chartered bank, a savings association or federal association or a brokerage firm designated as a primary government dealer by the Federal Reserve Bank.

The City Treasurer will maintain a list of financial institutions authorized to provide investment services conforming to the California Government Code Section 53601.5. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net Capital rule). No public deposit shall be made except in a qualified public depository as established by state laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the City Treasurer with the following: audited financial statements, proof of National Association of Security Dealers certification, proof of State of California registration, and certification of having read the City's investment policy. A current (for the fiscal year most recently ended) audited financial statement is required to be on file for each financial institution and broker/dealer in which the City invests.

## **Safekeeping and Custody**

To protect against fraud or embezzlement or losses caused by collapse of an individual securities dealer, 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. All trades executed by a dealer will settle delivery vs. payment (DVP) through the City's safekeeping agent. Securities held in custody for the City shall be independently audited on an annual basis to verify investment holdings.

## **Investment Diversification and Percentage Limitations**

Investments shall be diversified among institutions, types of securities and maturities to maximize safety and yield with changing market conditions. The City Treasurer will diversify investments by investment type and institution in accordance with the limitations of the authorized investments.

### **Diversification**

- No more than 70% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.
- The City Treasurer shall take great care not to exceed the maximum 70% diversification limit; however, due to routine fluctuations in the amount of cash held in Local Agency Investment Funds (LAIF) or other short term investments, the City may at times temporarily exceed the maximum 70% diversification limit.

### **Percentage Limitations**

- The City Treasurer shall not exceed the maximum investment percentage of the portfolio by investment type at the time of purchase of the security. Due to routine fluctuations in the amount of cash held in LAIF or other short term investments, the City may at times temporarily exceed the maximum investment percentage of the portfolio by investment type. The City Treasurer shall not be required to sell any investment type to maintain the maximum investment percentage of the portfolio by investment type limit.

## Authorized and Suitable Investments

Investments of City funds are governed by the California Government Code Sections 53600 et seq, as amended from time to time.

Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum par value per name	Credit/Minimum Quality Requirements
US Treasury Bills, Bonds and Notes	10 years – See Maximum Maturity requirements	0-70%	None	Full faith and credit of the United States Government
Federal Agency Securities	10 years – See Maximum Maturity requirements	0-70%	\$15,000,000	Implied guarantee of the US Government. Federal Agency Securities have an AAA rating.
Local Agency Bonds	10 years – See Maximum Maturity requirements	0-20%	\$5,000,000	Shall be rated in a rating category of "A" or its equivalent or better by a nationally recognized rating service such as S&P or Moodys.
State of California Obligations	10 years – See Maximum Maturity requirements	0-20%	\$5,000,000	Shall be rated in a rating category of "A" or its equivalent or better by a nationally recognized rating service such as S&P or Moodys.
CA Local Agency Obligations	10 years – See Maximum Maturity requirements	0-20%	\$5,000,000	Shall be rated in a rating category of "A" or its equivalent or better by a nationally recognized rating service such as S&P or Moodys.
Municipal Mutual Funds	N/A	0-20%	10% per single issue	Multiple requirements including highest ranking by two nationally recognized rating agencies, must have fund advisor registered with the SEC, have more than \$500 million under management, etc.
Certificates of Deposit – Private Placement Certificate of Deposit Account Registry Service (CDARS) & Negotiable Certificates of Deposit	5 years	0-30%	\$5,000,000 (Shall not exceed net worth of Issuing institution)	Only Senior Debt of domestic Banks, Savings & Loans, and Credit Unions with a rating of average or better by a recognized rating service; and pass a credit evaluation which may include such criteria as Community Reinvestment Act Rating, geographic location, market perception, loan diversity, management factors, and overall fiscal soundness.
Repurchase Agreements	30 days	0-10%	\$2,000,000	Signed Security Loan Agreement in file. Reverse Repurchase Agreements are specifically not authorized under this investment policy.
Local Agency Investment Fund	N/A	0-60%	\$20,000,000 (per entity)	Investment of funds in the California LAIF which allows the State Treasurer to invest through the Pooled Money Investment Account
Medium-term Corporate Bonds	5 years	0-20%	2,000,000	Shall be rated in a rating category of "A" or its equivalent or better by a nationally recognized rating service such as S&P or Moodys.

## **Prohibited Investments**

Pursuant to California Government Code Section 53601.6, as amended from time to time, the City shall not invest any funds in inverse floaters, range notes, or interest only strips that are derived from a pool of mortgages. In addition, the City shall not invest funds in any security that could result in zero interest accrual if held to maturity.

## **Collateralization**

Collateralization will be required on two types of investments: Certificates of Deposit and Repurchase Agreements.

- Negotiated Certificates of Deposit - Collateral for Negotiable Certificates of Deposit (NCD) must comply with Government Code, Chapter 4, Bank Deposit Law Section 16500 (et seq.) and the Savings and Loan Association and Credit Union Deposit Law Government Code Section 16600 (et seq.)
- Repurchase Agreements - In order to anticipate market changes and provide a level of security for all funds, the collateralization level for repurchase agreements will be 102% of market value of principal and accrued interest. The collateral cannot be mortgaged-backed securities.

## **Maximum Maturities**

The City of Indian Wells will attempt to match its investments with anticipated cash flow requirements. To the extent possible, the City Treasurer shall maintain investments in the portfolio equal to the amount of two years current General Fund operating reserves maturing at no more than five (5) years from the date of purchase. Once this requirement is met, a maximum of 30% of the portfolio may be invested for more than five (5) years but not to exceed ten (10) years. Reserve funds from Bond proceeds may be invested in securities exceeding five (5) years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of funds.

## **Internal Control**

The City Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and, (2) the valuation of costs and benefits requires estimates and judgments by management. Accordingly, the City Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

## **Maturity Structure and Performance**

The weighted average maturity of the pooled portfolio shall not exceed four years. In addition to the four year maturity average, the portfolio shall be structured for liquidity purposes to maintain \$5,000,000 of invested funds maturing within 360 days.

## **Reporting**

The City Treasurer shall prepare monthly Treasurer's Report that provides a clear picture of the status of the current investments. The Treasurer's Report is prepared in a manner that will allow the City Manager and the City Council to ascertain whether investment activities during the reporting period have deviated from the City's investment policy. The monthly Treasurer's Report will include the City portfolio, Fiscal Agent portfolio, and Bond Proceeds portfolio(s).

The following information shall be required in each monthly investment portfolio report:

- A listing of individual securities held at the end of the reporting period
- Percentage of Portfolio by Investment Type
- Investments Stated Rate and Book Value
- Unrealized gains or losses resulting from appreciation depreciation by listing the cost and market value of securities over one-year in duration
- Average rate of return on City's investments
- Maturity aging by type of investment
- Market value of Securities

## **Financial Assets and Investment Activity Not Subject To This Policy**

The City's Investment Policy does not apply to the following:

- Funds held in trust in the City's name in pension or other post-retirement benefit programs;
- Cash and Investments held in lieu of retention by banks or other financial institutions for construction projects;
- Short or long-term loans made to other entities by the City; and Short term (Due to/from) or long-term (Advances from/to) obligations made between the City and its funds.

## **Investment of Bond Proceeds**

California Code Section 5922 (d) governs the investment of bond proceeds and reserve funds in accordance with bond indenture provisions.

- **Arbitrage Requirement** - The US Tax Reform Act of 1986 requires the City to perform arbitrage calculations as required and return excess earnings to the US Treasury from investments of proceeds of bond issues sold after the effective date of this law. These arbitrage calculations may be contracted with an outside source to provide the necessary technical assistance to comply with this regulation. Investable funds subject to the 1986 Tax Reform Act will be kept segregated from other funds and records will be kept in a fashion to facilitate the calculations.

The City's investment position relative to the new arbitrage restrictions is to continue pursuing the maximum yield on applicable investments while ensuring the safety of capital and liquidity. It is the City's position to continue maximization of yield and to rebate excess earnings, if necessary.

## **Investment Policy Adoption**

The City of Indian Wells Investment Policy shall be adopted by minute order of the City Council of the City of Indian Wells. The Policy shall be reviewed annually by the City Council and any modifications made thereto must be approved by the City Council.