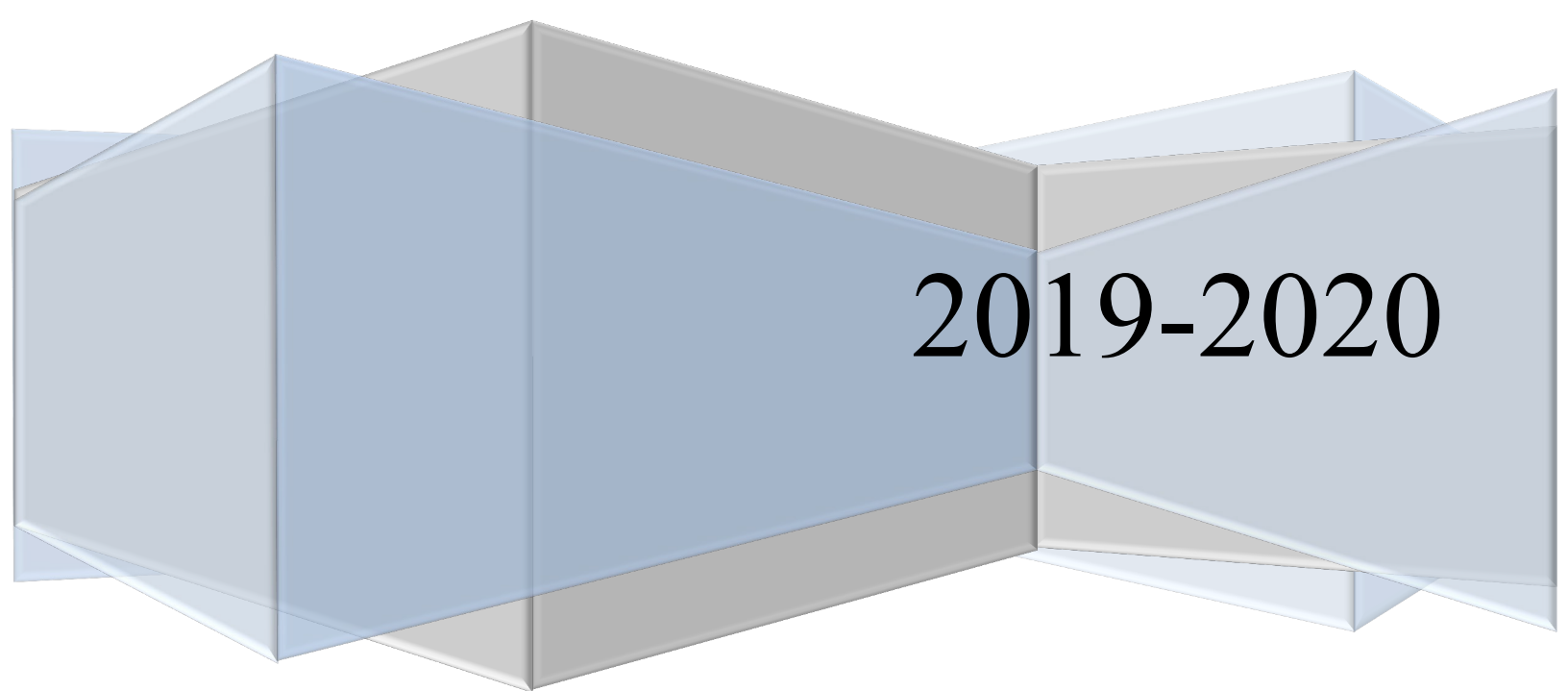


CITY OF HANFORD

INVESTMENT POLICY



2019-2020



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CITY OF HANFORD

City of Hanford, California 2019 Investment Policy

1.0 INTRODUCTION

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

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities. Related activities which comprise good cash management include accurate cash projections, the expeditious collection of revenue, the control of disbursements, cost-effective banking relations, and short-term borrowing program which coordinates working capital requirements and investment opportunity. It is the policy of the City to invest public funds in a manner that will provide high investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all state and local statutes governing the investment of public funds.

2.0 SCOPE

It is intended that this policy cover all funds and investment activities under the direct authority of the City. This policy also covers any funds held by fiscal agents in connection with the issuance of any bonds by the City. Such funds shall be invested in accordance with the applicable trust indenture.

These funds are accounted for in the City's Comprehensive Annual Financial Report (CAFR) and include:

General Fund

Special Revenue Funds

Debt Service Funds

Capital Project Funds

Enterprise Funds

Internal Service Funds

Trust and Agency Funds

Funds Held by Fiscal Agents

Any new funds created by the City Council (unless specifically exempted)

3.0 PRUDENCE

The standard of prudence to be used by city officials responsible for the investment of public funds shall be the “prudent person” standard as set forth in California Code Section 53600.3 and shall be applied in the context of managing the overall city portfolio of funds. 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’s security risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4.0 INVESTMENT OBJECTIVES

4.1 Safety. It is the primary duty and responsibility of the Treasurer to protect, preserve, and maintain cash and investments placed in his trust on behalf of the City. The safety or risk associated with an investment refers to the potential loss of principal, accrued interest or a combination of the two.

4.2 Liquidity. An adequate percentage of the portfolio should be maintained in liquid short-term securities which can be converted to cash if necessary to meet disbursement requirements. Since all cash requirements cannot be anticipated, investments in securities with active secondary or resale markets is highly recommended. Emphasis should be on marketable securities with low sensitivity to market risk.

4.3 Yield. Yield should become a consideration only after the basic requirements of safety and liquidity have been met. 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, the cash flow characteristics of the portfolio, and State and Local laws, ordinances or resolutions that restrict investments. Examples of yield benchmarks are U. S. Treasuries from bills to 5 year notes and the average Fed Funds Rate.

4.4 Public Trust. All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of public trust. It is the City's intent, at the time of purchase, to hold all investments until maturity. In a diversified portfolio it must be recognized that occasional measured losses are inevitable, and must be considered within the context of the overall portfolios investment return, provided that adequate diversification has been implemented.

5.0 DELEGATION OF AUTHORITY

California Government Code Section 53607 provides the authority of the legislative body of the local agency to invest the funds of the local agency or to delegate that authority to the treasurer of the local agency. The Treasurer is authorized by City ordinance to manage the investment needs of the City.

6.0 ETHICS AND CONFLICTS OF INTEREST

The City Treasurer and those employees that are 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 investment decisions. Employees and investment officials shall disclose to the City Council any material financial interests in financial institutions that conduct business with their jurisdiction and shall further disclose any large personal financial investment positions that could be related to the performance of the City.

7.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The City shall transact business with nationally or state chartered banks, federal or state savings and loan institutions, registered primary securities dealers and qualified regional dealers under SEC Rule 15c3-1 (net capital rule).

7.1 Broker Dealers must:

- A. be licensed by the States as a broker dealer, as defined in Section 25004 or the Corporations Code.
- B. be a member of the Financial Industry Regulatory Authority (FINRA).
- C. offer securities appropriate to the City's needs.
- D. have read the City's Investment Policy.

8.0 AUTHORIZED AND SUITABLE INVESTMENTS:

Investment of City funds is governed by the California Government Code Sections 53600, 53601, 53601.5, 53601.6, and 53635. Within the context of the limitations in Figure 1, the following investments are authorized, as further limited herein:

INVESTMENT TYPE	MAXIMUM REMAINING MATURITY	MAXIMUM SPECIFIED % OF PORTFOLIO	MINIMUM QUALITY REQUIREMENTS	GOVERNMENT CODE SECTIONS
U. S. Treasury Obligations	5 years	None	None	53601(b)
U.S. Agency Obligations	5 years	None	None	53601(f)
CA State Obligations or Sub-Divisions	5 years	None	None	53601(a), 53601(d), 53601(e)
Bankers' Acceptances	180 days	40% ^E	None	53601(g)
Commercial paper	270 days or less	25% of the agency's money ^G	Highest letter and number rating by an NRSRO ^H	53601(h)(2)(C)
Negotiable Certificates of Deposit	5 years	30% ^J	FDIC Insured	53601(i)
Non-negotiable Certificates of Deposit	5 years	None	FDIC Insured	53635.2, 53637, 53638 & 53653
Repurchase Agreements**	1 year	None	Collateralized	53601(j)
Medium Term Notes ^N	5 years	30% of the agency's money ^G	"A" rating category or its equivalent or better	53601(k)
Mutual Fund and Money Market Mutual Funds	N/A	20% ^O	Multiple ^{P,Q}	53601(l) and 53601.6(b)
Collateralized Bank Deposits ^R	5 years	None	Collateralized	53601(n)
County Pooled Investment Funds	N/A	None	None	27133
Joint Powers Investment Pool	N/A	None	Multiple ^S	53601(p)
Local Agency Investment Fund (LAIF) ^U	N/A	None	None	16429.1
Supranationals ^U	5 years or less	30%	"AA" rating category or its equivalent or better	53601(q)

Source: CDIAC Local Agency Investment Guide (LAIG), Figure 1
Information as of January 1, 2019 ^A and applicable to all local agencies^B

**Master Repurchase Agreement must be signed with the bank or dealer (a PSA Master Agreement or equivalent).

TABLE OF NOTES FOR FIGURE 1

- ^A Sources: Sections 16340, 16429.1, 53601, 53601.8, 53635, 53635.2, 53635.8, and 53638.
- ^B Municipal Utilities Districts have the authority under the Public Utilities Code Section 12871 to invest in certain securities not addressed here.
- ^C Section 53601 provides that the maximum term of any investment authorized under this section, unless otherwise stated, is five years. However, the legislative body may grant express authority to make investments either specifically or as a part of an investment program approved by the legislative body that exceeds this five year remaining maturity limit. Such approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.
- ^D Percentages apply to all portfolio investments regardless of source of funds. For instance, cash from a reverse repurchase agreement would be subject to the restrictions.
- ^E No more than 30 percent of the agency's money may be in bankers' acceptances of any one commercial bank.
- ^F "Select Agencies" are defined as a "city, a district, or other local agency that do[es] not pool money in deposits or investment with other local agencies, other than local agencies that have the same governing body."
- ^G Local agencies, other than counties or a city and county, may purchase no more than 10 percent of the outstanding commercial paper of any single issuer.
- ^H Issuing corporation must be organized and operating within the U.S., have assets in excess of \$500 million, and debt other than commercial paper must be in a rating category of "A" or its equivalent or higher by a nationally recognized statistical rating organization, or the issuing corporation must be organized within the U.S. as a special purpose corporation, trust, or LLC, has program wide credit enhancements, and has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical rating agency.
- ^I "Other Agencies" are counties, a city and county or other local agency "that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body." Local agencies that pool exclusively with other local agencies that have the same governing body must adhere to the limits set for "Select Agencies," above.
- ^J No more than 30 percent of the agency's money may be in negotiable certificates of deposit that are authorized under Section 53601(i).
- ^K No more than 30 percent of the agency's money may be invested in deposits, including certificates of deposit, through a placement service (excludes negotiable certificates of deposit authorized under Section 53601(i)).
- ^L Reverse repurchase agreements or securities lending agreements may exceed the 92-day term if the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity dates of the same security.
- ^M Reverse repurchase agreements must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has a significant relationship with the local agency. The local agency must have held the securities used for the agreements for at least 30 days.
- ^N "Medium-term notes" are defined in Section 53601 as "all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, 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"
- ^O No more than 10 percent invested in any one mutual fund. This limitation does not apply to money market mutual funds.
- ^P A mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Sections 53601 and 53635.
- ^Q A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years' experience investing in money market instruments with assets under management in excess of \$500 million.
- ^R A joint powers authority pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Section 53601, subdivisions (a) to (o).
- ^S Local entities can deposit between \$200 million and \$10 billion into the Voluntary Investment Program Fund, upon approval by their governing bodies. Deposits in the fund will be invested in the Pooled Money Investment Account.
- ^T Only those obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less.

Source: CDIAC Local Agency Investment Guide (LAIG, Figure 1 Information as of January 1, 2019^A and applicable to all local agencies^B

9.0 REVIEW

The securities held by the City must be in compliance with 8.0 Authorized and Suitable Investments at the time of purchase. The Treasurer will review the portfolio at least quarterly to insure securities are still in compliance and determine if it is necessary to report to council any major or critical incidences of noncompliance.

10.0 INVESTMENT POOLS/MUTUAL FUNDS

The City further stipulates that mutual funds/money market mutual funds are restricted to funds that include only permitted investments under 8.0 Authorized and Suitable Investments.

Governmental sponsored pools and/or mutual funds are included in Section 8.0 Authorized and Suitable Investments; therefore, the City must do due diligence and a thorough investigation of the pool and/or fund prior to investing, and on a continual basis. There shall be a questionnaire; any additional pool shall provide the following:

- A. A description of eligible investment securities, and a written statement of investment policy and objectives.
- B. A description of interest calculations and how it is distributed, and how gains and losses are treated.
- C. A description of how the securities are safeguarded (including the settlement processes), and how often are the securities priced and the program audited.
- D. A description of who may invest in the program, how often, and what size deposits and withdrawals are allowed.
- E. A schedule for receiving statements and portfolio listings.
- F. A list of any reserves, retained earnings, etc. utilized by the pool.
- G. A fee schedule, when and how it is assessed.
- H. Pool eligibility for bond proceeds and/or pool policy on accepting such proceeds.

11.0 COLLATERALIZATION

Collateralization will be required on two types of investments: certificates of deposit and repurchase agreements. Collateral for non-negotiable certificates of deposit and negotiable certificates of deposit (NCD) must comply with Government Code 53652. In addition, if the CD is not FDIC insured or goes over the FDIC \$250,000 limit, collateral is required equal to 110 percent of market value of principal and accrued interest. Collateral for repurchase agreements shall be 102 percent of market value of principal and accrued interest.

The City chooses to limit collateral to the following: US Treasury securities or Federal Agency securities. This will provide an addition level of security due to inevitable changes in market conditions. 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. The right of collateral substitution is granted, within the parameters and constraints of this Policy.

Section 53649 of the California Government Code specifies that the City Treasurer is responsible for entering into deposit contracts with each depository. Investments held with third parties and applicable collateral for the investment shall be properly collateralized in accordance with requirements of the California Government Code.

12.0 SAFEKEEPING AND CUSTODY

All securities, including collateral for repurchase agreements, entered into by the City shall be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

13.0 DIVERSIFICATION

The City will diversify the investment portfolio by the type of investment, issuer, and maturity dates in order to mitigate risk in the investment portfolio. With the exception of U. S. Treasury securities and authorized pools such as LAIF, no more than 30% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

14.0 MAXIMUM MATURITIES

It is the City's policy to buy and hold investments until maturity. Maturities of investments will be selected based on cash flow requirements. Investments will have a maximum remaining maturity of only the limitations imposed by government statute or five (5) years from purchase, whichever is shorter. Reserve funds may be invested in securities exceeding 5 years based on the permissible investment maturities dictated by the legal documents.

15.0 INTERNAL CONTROLS

A system of internal controls shall be established to prevent losses of public funds arising from fraud, employee error, and misrepresentations of third parties, unanticipated changes in financial markets or imprudent actions by employees of the City. An independent review of internal control and investment practices, policies and procedures will be provided annually by the City's external auditor.

16.0 PERFORMANCE STANDARDS

The investment portfolio shall be invested with the objective of obtaining a market rate of return with considerations to budgetary and economic cycles, commensurate with investment risk constraints and cash flow needs.

17.0 REPORTING

The council has delegated investment authority to the City Treasurer for a one-year period. The Treasurer shall make a monthly report of investment transactions to the legislative body. Section 53607 of the California Government Code states the legislative body, subject to review; many renew the delegation of authority pursuant to this section each year.

18.0 INVESTMENT POLICY ADOPTION

The policy shall be reviewed annually by the Treasurer and City Attorney for any revisions. The policy will be submitted to the City Council for their review and approval each fiscal year.

19.0 GLOSSARY

GLOSSARY

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

ASKED: The asked price is what sellers are willing to take for a security. Another name is the offered side when you are buying a security.

BANKERS' ACCEPTANCE (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMMERCIAL PAPER: Commercial paper is the trade name applied to unsecured promissory notes issued by finance and industrial companies to raise funds on a short term basis.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the City of Glendora. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions buying and selling for his own account.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL AGENCY: Federal agencies are special government organizations set up for a specific purpose. Some examples include: FAMCA, FFCB, FHLB, FHLMC, and FNMA.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per entity.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

LOCAL AGENCY INVESTMENT FUND (LAIF): LAIF was established by the State to enable treasurers to place funds in a pool for investment. Each agency is limited to an investment of \$65 million per account.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase – reverse repurchase agreements that establish each party’s rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers’ acceptances, etc.) are issued and traded.

NATIONALLY RECOGNIZED STATISTICAL-RATING ORGANIZATION (NRSRO): A nationally recognized statistical rating corporation (NRSRO) is a credit rating agency that issues credit rating that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) – registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state – the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structure to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, or increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank’s vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.