

Attachment A

Investment Policy CP-15-01

City of Victorville Council Policy

SUBJECT:	POLICY NUMBER: CP-15-01
Investment Policy	January 20, 2015

PURPOSE

It is the policy of the City of Victorville to invest public funds for itself and its component units in a prudent manner which will provide the maximum safety while meeting the daily cash flow needs and conforming to all statutes governing the investment of public funds.

The primary purpose of this Investment Policy (“Policy”) document is to establish guidelines and objectives for the management of investment of:

1. the City’s temporarily idle funds (“surplus funds”)
2. proceeds of bond issues that are held by the City pending their ultimate use
3. proceeds of bond issues that held by third party trustees

DEFINITIONS AND APPLICABILITY:

There are slightly different considerations affecting investment decisions depending on the type of or source of cash owned by the City or in which the City has an interest. For Policy purposes, these are classified as follows:

1. Temporarily idle funds are those monies that are in the possession and control of the City, arising from revenues and the general operation of the City. These monies are typically kept in the City’s bank accounts and LAIF accounts.
2. Proceeds of bond issues held by the City are those monies that have arisen from specific bond or bonds and are governed in whole or in part by the related bond offering documents.
3. Proceeds of bond issues that held and controlled by third party trustees are those monies that have arisen from a specific bond or bonds and are held by the trustee pursuant to requirements imposed on the trustee by the bond offering documents.
4. Proceeds from defeased bond issues are funds that help by and invested by the trustee that are intended to generate sufficient earnings that, combined with the principal, will meet all future debt service obligations on the defeased bonds.

The use of the term "investment portfolio" is not intended to define all investments in a single group, but rather is intended to define investments on a fund or component unit basis, thus recognizing that one component unit of the City may have entirely different investment requirements, liquidity needs, etc.

STANDARDS OF CARE:

The standard of prudence to be used by investment officials shall be the "prudent person rule" standard and shall be applied in the context of managing an overall portfolio. 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. Accordingly, certain types of investments which are viewed as intrinsically speculative or otherwise involve more than minimal risk to the principal are prohibited.

City Treasurers acting in accordance with written procedures and this Investment Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this Policy.

OBJECTIVES:

All funds in the possession of the City as temporarily idle or surplus funds shall be invested in accordance with principles of sound treasury management and in accordance with provisions of California Government Code Sections 53600 et seq., the Municipal Code, and this Policy.

Proceeds of bonds issues that are held by the City pending their ultimate use shall be invested in accordance with the bond offering documents.

Proceeds of bond issues held by a third-party trustee are governed by the terms of the Bond Offering documents. Notwithstanding the control exercised by a third-party trustee, the City has an obligation to review the investments made by a third-party trustee so as to assure that the trustee effectively manages the monies in accordance with these objectives. In establishing this Policy requirement, it is recognized that the City may suffer adverse financial consequences in the event that a trustee makes unwise or poor performing investment decisions and it is further recognized that the City's role in advising a trustee is limited to review and recommendation.

The following is a discussion of the general objectives for investing temporarily idle or surplus funds under the control of the City.

A. Overall Risk Profile

The basic objectives of the City's investment program are, in order of priority:

1. Safety of invested funds;

2. Maintenance of sufficient liquidity to meet cash flows needs of the investing fund or component unit; and
3. Attainment of the maximum yield possible consistent with the first two objectives.

B. Achievement of Objectives

The achievement of these objectives shall be accomplished in the manner described below:

1. Safety

The City shall insure the safety of its invested funds by limiting credit and interest rate risks. Credit risks are the risks of loss due to the failure of the security issuer or backer. Interest rate risk is the risk that the market value of portfolio securities will fall due to an increase in general interest rates.

a. Credit Risk will be mitigated by:

- i. Limit investments to the safest types of securities;
- ii. Pre-qualifying with an established procedure the financial institutions with which it will do business;
- iii. Diversifying the investment portfolio so that the failure of any one issuer or backer will not place an undue financial burden on the City.

b. Interest rate risk will be mitigated by:

- i. Structuring the City's portfolio so that securities mature to meet the City's cash requirements for ongoing operations, thereby, avoiding the need to sell securities on the open market prior to their maturation to meet those specific needs;
- ii. Investing primarily in short- term securities, money markets, mutual funds, or similar investment pools.

c. The physical security of safekeeping of the City's investments is also an important element of safety. Detailed safekeeping requirements are defined in the section of this policy entitled "Safekeeping of Securities".

2. Liquidity

The City's financial portfolio must be structured in a manner, which will provide that securities mature at approximately the same time as cash is needed to meet anticipated demands. Additionally, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets, or consist of investments that have a nominal maturity of sixty days or less. The specific percentage mix of different investment instruments and maturities is described herein.

3. Rate of Return

Rate of return on the City's investment portfolio is of tertiary importance compared to the safety and liquidity objectives described above. Investments are limited to relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed. While it may occasionally be necessary or strategically prudent of the City to sell a security prior to maturity to either meet unanticipated cash needs or to restructure the portfolio, this policy specifically prohibits trading securities for the sole purpose of speculating or taking an unhedged position on the future direction of interest rates. Specifically, "when, as and if issued" trading and open-ended portfolio restructuring transactions are prohibited.

C. Maturity Time Frames for Investments

The City's investment portfolio shall be structured to provide that sufficient funds from investments are available as needed to meet the City's anticipated cash needs. Subject to the safety provisions outlined above, the choice of investment instruments and maturities shall be based upon an analysis of anticipated cash needs, existing and anticipated revenues, interest rate trends and specific market opportunities. As a general rule, the average maturity of the investment portfolio will not exceed three years, and no investment will have a maturity of more than five years from its date of purchase.

INVESTMENT PARAMETERS:

A. Types of Investment Authorized

The City may invest temporarily idle funds through banks, saving and loans, authorized broker/dealers, and the State Local Agency Investment Fund ("LAIF").

No investment shall have maturity greater than five years. Combined investments with maturities greater than one year shall not exceed 70% of the total portfolio. Funds may be invested in the following investment types without percentage limitation as to the total of the investments except as noted:

1. United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
2. The Local Agency Investment Fund (LAIF).
3. Collateralized and/or insured demand deposits in nationally or state chartered banks or states or federal associations (as defined by Section 5102 of the Financial Code).
4. Certificates of deposit issued by a nationally or state-chartered bank or a state or federal association (as defined by Section 5102 of the Financial Code) maturing in two years or less, and which shall be fully insured by the F.D.I.C., up to a maximum of 30% of the total investment portfolio.

5. Obligations issued by Government Sponsored Entities having the full faith and credit of the United States Government, maturing in five years or less, the total of which shall not exceed 75% of the total portfolio, as follows:
 - a. Federal National Mortgage Association (Fannie Mae).
 - b. Government National Mortgage Association (Ginnie Mae) in an amount not to exceed 20% of the total portfolio.
 - c. Federal Home Loan Mortgage Corporation (Freddie Mac).
 - d. Federal Home Loan Bank (FHLB).
 - e. Federal Farm Credit banks (FFCB).
 - f. Federal Agricultural Mortgage Corporation (FAMC).

Note: State law lists other obligations issued by Government sponsored Entities ("GSE") in whose debt instruments a local government may invest. However, certain of these GSE'S have failed and been taken over by the U.S. Government. For this reason, the Policy does not permit investments in debt of any GSE that does not have the full faith and credit of the U.S. Government.

6. Money market mutual funds. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15U.S.C.Sec.80a-1et seq.). To be eligible for purchase the money fund shall be an "AAA" rated Government or U.S. Treasury money fund. In addition, the company shall have met either of the following criteria: (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations. (B) Retained an investment adviser registered with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).

The percentages limitations listed above on the amount of the City's portfolio that may be invested in each investment category or issuer apply at time of purchase. The percentage limitations shall be recalculated on a basis of fair market values on a quarterly basis and be included in the quarterly report to the City Council. However, there is no obligation to rebalance the portfolio.

B. Prohibited investments

Investments by the City in securities permitted by the California Government Code but not specifically approved by this investment policy are prohibited without the prior approval of the City Council.

As required by California Government Code Section 53601.6, the City shall not invest any funds in inverse floaters, range notes, mortgage derived interest-only strips or any security that could result in zero interest accrual if held to maturity.

No representative of the City is authorized to engage in margin transactions, derivatives, nor reverse repurchase agreements on behalf of the City.

C. Qualification of Brokers, Dealers, and Financial Institutions

United States Treasury issue transactions shall be conducted only with the Federal Reserve, or the bank providing banking services for the City, or broker/dealers currently authorized to provide investment services to the City.

The City Treasurer shall maintain a list of financial institutions and broker/dealers authorized to provide investment services to the City. The authorized financial institutions and broker/dealers shall maintain a license in the State of California and shall qualify under the Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). If at any time the City Treasurer learns that a financial institution or broker/dealer does not maintain a license in the State of California or no longer qualifies under the SEC Rule 15C3-1, the City Treasurer shall immediately notify the City Council and shall place the item on the next agenda. Annually, all authorized firms must supply the City Treasurer with a current audited financial statement and such other documents that may be requested verifying compliance with Rule 15C3-1.

D. Collateralization Requirements

Uninsured time deposits with banks and savings and loans shall be collateralized in the manner prescribed by law for depositories accepting municipal investment funds.

E. Ethics & Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personnel business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Such employees and investment officials shall disclose to the City Council and the City Manager any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personnel financial/investment positions that could be related to the performance of the City's portfolio. Such employees and officers shall subordinate their personal investment transactions to those of the City, particularly with regard to the time of purchases and sales.

F. Pre-formatted Wire Transfers

Wherever possible, the City shall use pre-formatted wire transfers to restrict the transfer of funds to pre-authorized accounts only. When transferring funds to an account, the bank must require a second authorized employee to release the wire for confirmation that the transfer is authorized. Wire transfers between brokers and/or security dealers are prohibited. Wire transfers directly between LAIF and the City's safekeeping bank are permitted.

G. Notice of Policy

The City shall send a copy of the current edition of this Investment Policy and enabling resolution upon opening an account and annually to brokers/dealers, which are approved to handle City of Victorville investments. Receipt of the policy and authorizing resolution, including confirmation that it has been reviewed by persons handling the City's account, shall be acknowledged in writing within thirty days.

H. Place and Time for Conducting Business

Investment transactions shall be conducted from City Hall during normal business hours unless a sufficient number or authorized signatories are unavailable at City Hall to complete the investment transaction.

I. Investing Bond Proceeds

For the purpose of this section, "Bond Proceeds" shall include any notes, bonds, or other instruments issued on behalf of the City of Victorville, or any other District or Corporation for which the members of the City Council serve as the governing body.

Should the City of Victorville elect to issue bonds for any purpose, the Indenture of Trust, to the extent applicable, shall be the governing document specifying allowable investments for the proceeds of the issue as prescribed by law. The section of any Indenture of Trust which specifies allowable investments shall be presented to the Governing body for approval. If the bond documents are silent as to the permitted investments, bond proceeds shall be invested in securities permitted by this policy. With respect to maximum maturities, if in the opinion of the City Treasurer matching the segregated investment portfolio of the bond reserve fund with the maturity schedule of an individual bond issue is prudent given current economic analysis, the Policy authorizes extending beyond the five-year maturity limitation.

It is assumed that investments held by a trustee relating to a defeased bond issue have been invested so as to meet the requirement for defeasement. These requirements essentially are that the principal and projected earnings thereon will be sufficient to meet all obligations of the defeased bond issue with no more than a negligible risk that the obligor may be required to make up any cash flow shortages. Therefore, trustees generally invest in long term U.S. Government securities that have cash flows fully matched to the obligations on the defeased bonds. Accordingly, there is generally very little active management on these trust assets.

SAFEKEEPING OF SECURITIES AND CERTIFICATES OF DEPOSIT (CD):

A. Safekeeping Agreement

The City shall contract with a bank or trust company for the safekeeping of securities, other than CDs, LAIF, and money market mutual funds, which are

owned by the City as part of its investment portfolio. All investments held by the third-party custodian for the City of Victorville shall be evidenced by safekeeping receipts.

B. Handling of City-Owned Securities and Certificates of Deposit

All individually purchased CDs owned by the City shall be held by the City. All CD's purchased through the Certificate of Deposit Account Registry Service (CDARS) shall be held in electronic form by a qualified bank sponsoring the City's access to the CDARS Network.

The collateral for CDs purchased from a nationally or state chartered bank or state or federal association (as defined by Section 5102 of the Financial Code) shall be held by the applicable financial institution appointed for this purpose by the California Department of Banking, pursuant to State law. The collateral for CDs purchased from banks shall be held in trust by the bank (if a safekeeping agreement has been executed) or by a third-party custodian. The collateral shall be monitored by the State of California Treasurer's Office Securities Clearance Section, Local Agency Administration.

C. Security Transfers

All Security transactions entered into by the City shall be conducted on a Delivery-Versus-Payment (DVP) basis. DVP is delivery of securities with an exchange of money for the securities and with an exchange of a signed receipt for the securities. All securities, except CDs and money market funds shall be held in an account in the City's name by a third-party custodian designated by the City Treasurer. LAIF accounts may be held in either the name of the City and/or in the name of any subsidiary district or component unit of the City.

The authorization to release City securities shall be provided either in writing signed by two authorized signatories or by telephone to the appropriate bank or financial institution by an authorized City official other than the person who initiated the transaction. If instruction is provided by telephone, a written confirmation outlining details for the transaction and confirming the telephoned instructions shall be sent to the bank within two (2) working days.

Authorized City officials are the City Manager, City Treasurer, Chief Financial Officer, and Finance Manager.

D. Verification of Certificates of Deposit Collateral

The collateral for certificates of deposits exceeding insurance amounts provided by the F.D.I.C. shall be an amount equal to a minimum of 110% of the deposited funds. The State of California Treasurer's Office, Securities Clearance Section, Local Agency Administration will monitor the collateral held by the custodian of collateral pledged for local agency deposits.

RESPONSIBILITIES:

A. Responsibility of the Finance Division

The Finance Division is charged with responsibility for maintaining custody of all public funds and securities belonging to or under the control of the City and for the day-to-day deposit and investment of those funds in accordance with this Policy.

B. Responsibility of the City Treasurer

The City Treasurer is charged with responsibility for the selection of specific investments and the development of procedures to implement this Investment Policy as approved by the City Council.

C. Responsibility of the City Manager

The City manager is responsible for directing and supervising the activities of the Finance Division and the City Treasurer in carrying out this Policy. He or she is responsible further to keep the City Council fully advised as to the financial condition of the City.

D. Responsibility of the City's auditing firm

The City's auditing firm's responsibilities shall include, but not be limited to an annual review of the City's Investment Policy for compliance with the California Governments Codes relating to local government investment policies. The auditing firm shall test the City's investment activity for compliance with the City's investment policy and the applicable California Government Codes relating to investments that may be purchased or held by local government.

E. Responsibility of the City Council

The City Council shall annually consider and adopt a written Investment Policy. As provided in that Policy, the Council shall receive, review, and accept quarterly investment reports.

F. Responsibility of Investment Advisors

Approved investment advisors shall provide the service within the following parameters:

1. All investments made on behalf of the City shall be accomplished in accordance with this Investment Policy.
2. All investment advisors must be explicitly authorized by the City Council.
3. All investment advisors must provide services within the scope of responsibility consistent with their contract with the City.

REPORTING:

The City Treasurer shall prepare a Quarterly Investment Report, with interim reports as may be requested by the City Council or deemed as appropriate by the City Treasurer. This report shall include a management summary that provides an analysis of the status of the current investment portfolios and transactions made since the last such report.

The Quarterly Investment Report shall include the following:

- Type of investment instruments
- Issuer names
- Maturity date
- Par value of investment
- Current rate of interest
- Purchase price
- Overall portfolio yield based on cost
- Weighted average days to maturity
- Included in each report and signed by the City Treasurer: “The above Investments are consistent with the City’s Investment Policy and Government Code Section 53646. All investment transactions during this period are included in this report. As City Treasurer of the City of Victorville, I hereby certify that sufficient investment liquidity and anticipated revenues are available to meet the next six (6) month’s estimated expenditures.”

ANNUAL REVIEW:

This Investment Policy shall be reviewed each year by the City Council to ensure its consistency with respect to the overall objectives of safety, liquidity, and yield. Proposed amendments to this policy may be prepared by the City Treasurer and shall be forwarded to the City Council for consideration.