



AGENDA REPORT

Meeting Date: August 4, 2009
Item Number: E-1
To: Honorable Mayor & City Council
From: Eliot M. Finkel, City Treasurer
Subject: ADOPTION OF THE STATEMENT OF INVESTMENT POLICY
FOR FISCAL YEAR 2009/2010

Attachments:

1. Redline Version of FY 2009/2010 Investment Policy
2. FY 2009-2010 Investment Policy

INTRODUCTION

The City is required by state law to formally approve its investment policy annually. As in the case of other financial policies, it is also prudent to evaluate this policy regularly to evaluate whether circumstances have changed.

DISCUSSION

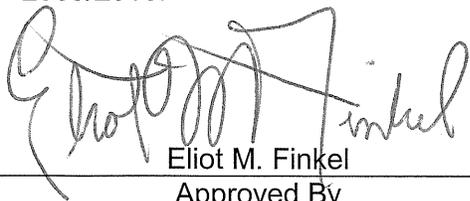
The City Treasurer and staff have reviewed the current statement of investment policy and have made the recommended changes as outlined in the attached redline version of the final document. Our policy continues to be more conservative than the slightly broader limitations established under the Government Code.

FISCAL IMPACT

Adoption of the statement of investment policy will not have a direct fiscal impact, but will affirm that the policy meets the City's needs.

RECOMMENDATION

Staff recommends formal approval of the statement of investment policy for Fiscal Year 2009/2010.


Eliot M. Finkel
Approved By


Noel Marquis
Approved By

Attachment 1

Redline Version of FY 2009/2010
Investment Policy



City of Beverly Hills Statement of Investment Policy

Fiscal Year ~~2008~~2009/2009-2010

1.0 Policy:

It is the policy of the City of Beverly Hills to protect, preserve and maintain the assets of the City. It shall invest public funds in a manner that will provide the highest investment return commensurate with maximum security, while meeting the cash flow demands of the City of Beverly Hills and conforming to all State and Local statutes governing the investment of public funds.

2.0 Scope:

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by outside fiscal agents under the provisions of bond indentures, funds in the City's employee deferred compensation plan, or other funds as designated by the City Council or Chief Financial Officer. Funds contained in the City's pool are designated as "General Portfolio". This investment policy applies to the investment of surplus funds contained in the "General Portfolio". These funds are accounted for in the Comprehensive Annual Financial Report and include:

- The General Fund
- All Special Revenue Funds
- All Debt Service Funds
- All Capital Projects Funds
- All Enterprise Funds
- All Internal Service Funds
- All Trust and Agency Funds

2.1 Cash and Investments with Fiscal Agents - The City is required by bond covenants to retain various cash reserves and restricted funds. In the absence of specific statutory provisions governing the issuance of bonds, certificates or leases, these monies may be invested in accordance with the ordinance, resolutions or indentures specifying the types of investments its trustees or fiscal agents may make. These ordinances, resolutions and indentures are generally more restrictive than this policy. This policy, while not directly applying to these monies, shall be a guide when developing the bond covenants for City offerings.

2.2 Cash and Investments - Deferred Compensation Plan - The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Sections 125, 401 and 457. The City invests deferred compensation and Retirement Health Savings Plan assets with the International City Manager's

Association (ICMA). The ICMA invests employee account assets in various investment options as directed by the individual employee. Accordingly, these assets are neither controlled by the City nor subject to this investment policy.

3.0 Prudence:

The City holds to the “prudent investor standard” in that all 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 and acting as a fiduciary of the public trust. The prudent investor standard set forth in Section 53600.3 of the Government Code states: “When investing, reinvesting, purchasing, acquiring, exchanging, selling or 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 principle and maintain the liquidity needs of the agency.

4.0 Objectives:

The primary objectives, in priority order, of the City of Beverly Hills' investment activities shall be:

4.1. Safety: Safety of principal is the foremost objective of the investment program. “Safety” means that the overall value of City funds shall not be diminished in the process of securing and investing those funds or over the duration of the investments. To attain this objective, portfolio diversification is required.

4.2. Liquidity: The City of Beverly Hills' investment portfolio will remain sufficiently liquid to enable the City of Beverly Hills to meet all operating requirements which might be reasonably anticipated.

Additionally, since all possible cash demands cannot be anticipated, a large portion of the securities held should be those for which active secondary markets exist. The liquidity of each type of authorized investment is included in its description in the “Authorized Investments” section of this policy.

4.3. Return on Investment (Yield): The City of Beverly Hills' investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow characteristics of the portfolio.

In general, the California Government Code limits authorized investments to those classes of securities which have lower risk (and therefore lower yields) than other higher risk investment choices. In each investment transaction the anticipated return on investment is subordinate to the preceding requirements of reduction of credit and interest rate risk.

5.0 Delegation of Authority:

Authority to manage the City of Beverly Hills' investment program is derived from Municipal Code Sec. 2-3.1201, which establishes the elected office of City Treasurer and defines the Treasurer's duties and functions as those prescribed by the State Government Code commencing with Section 41000 ~~thereof. Management responsibility for the investment program is delegated to the City Treasurer, who shall establish written procedures for the operation of the investment program consistent with the investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions.~~ Pursuant to Government Code Section 53607, the City Council delegates the authority to invest or reinvest surplus funds of the city, and to sell or exchange securities so purchased to the City Treasurer ~~for fiscal year 2007-2008~~. No person may engage in an investment transaction except as provided under the terms of this policy. The City Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

The City Treasurer has appointed as Deputy City Treasurers the City's Chief Financial Officer and Assistant Director of Administrative Services – Finance with responsibility for treasury operations and the reporting thereof under the Treasurer's general direction. The City Treasurer has also established an Investment Committee consisting of the Treasurer, the Chief Financial Officer and the Assistant Director of Administrative Services – Finance (Deputy City Treasurers) with responsibility for determining the City's investment program and establishing written procedures for the operation of the investment program consistent with the Investment Policy. The City Treasurer may appoint other ex officio Deputy Treasurers to provide advice on investments.

6.0 Ethics and Conflicts of Interest:

Officers and employees involved in the investment process are required by the City of Beverly Hills' Conflict of Interest Policy and State Government Code Section 81000 to disclose annually to the City Council any material financial interests in financial institutions that conduct business within the City and further to disclose any large personal financial/investment positions that could be related to the performance of the City, particularly with regard to the time of purchase and sales, as part of the City's conflict of interest reporting requirements.

Said employees shall also comply with the City's Administrative Regulation (AR 3B.3) Acceptance of Gifts as a result of being employees of the City of Beverly Hills.

7.0 Authorized Financial Dealers, Institutions and Portfolio Managers:

The Treasurer will maintain a list of financial institutions authorized to provide investment services, including portfolio management. In addition, a list will also be maintained of security broker/dealers approved to provide direct services to the City. These broker/dealers shall be selected by credit worthiness and be 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 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state law. Financial institutions authorized to

provide investment services to the City, including portfolio management, shall utilize security broker/dealers who are duly licensed and authorized to provide investment services in the State of California but shall not be limited to the City's list of approved broker/dealers.

Anyone providing financial services to the City, including portfolio management must adhere to the City's investment policies as adopted by the City Council annually.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions, including portfolio management, must supply the Treasurer with the following:

Audited financial statements

Proof of National Association of Securities Dealers certification

Proof of State registration

Certification of having read and understood the City of Beverly Hills' investment policy and depository contracts

A current audited financial statement is required to be on file for each financial institution, broker/dealer and portfolio manager with which the City of Beverly Hills invests.

8.0 Authorized and Suitable Investments:

~~The surplus funds of the City may be invested in any of the following list of eligible securities.~~

~~Surplus funds are defined as those funds not immediately needed for City operations excepting those minimum balances required by the City's banks as compensation for services rendered to the City, or such other funds as otherwise determined by the Chief Financial Officer. Investable funds, which include funds not needed for the operation of the City, the Parking Authority or the Public Financing Authority, are determined by the Chief Financial Officer.~~

The list of eligible securities, into which investable funds may be placed, is drawn from the approved investments contained in the California Government Code Sections 53600 et seq., limited further by the provisions of this Policy.

For eligibility as a City investment, the following restrictions should be added to those contained in the California Government Code Sections 53601 et seq. They are:

8.1 U.S. Treasury Bonds, Notes & Bills - "Strips" and "Cubes" -

The principal and interest portions of U.S. Treasury securities are issued by the Federal Government. Frequently, broker/dealers make a market in these securities by separating the principal and interest components and marketing them separately. The principal portion of their "stripped" securities are marketed at deep discounts. "Strips" and "Cubes" do not provide income streams during the term of the investment, but rather pay a "par" amount at maturity. This makes these investments somewhat more volatile than standard U.S. Treasury securities.

As a result of the deep discounts on these investments, under certain circumstances, such as protection of principal, the City benefits from their usage. Because these instruments contain a slightly higher risk than normal U.S. Treasury securities and because they provide no income stream, the City will limit their usage to a maximum of \$35 million.

8.2 U.S. Government Agencies - There are numerous government agencies listed which issue debt instruments but many lack the liquidity necessary to fit the City's portfolio requirements. Purchases of government agency securities should be limited to the issues of the Federal Farm Credit Bank, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank, and the Student Loan Mortgage Corporation.

8.3 Repurchase Agreements - A repurchase agreement is a contractual agreement between a financial institution or dealer and the City in which the City lends its funds to the financial institution or dealer for a certain number of days at a stated rate of interest. In return, the City takes title to securities as collateral until funds and interest are repaid.

Repurchase agreements may only be made with primary dealers of the Federal Reserve Bank of New York. The City will not enter into repurchase agreements for a period greater than 7 days. The market value of the collateral will not be less than the greatest of 102% of the funds borrowed against those securities or the sum of the funds borrowed against the securities plus accrued interest. And the security will be treasuries and agencies of the United States Government only.

8.4 Medium term corporate notes - may be bought only through major banks or primary dealers which offer competitive secondary markets for the repurchase of the notes before maturity, such as Bank of America, Goldman Sachs, and J. P. Morgan.

8.5 Commercial paper - (which must have a rating of A1-P1) **and corporate bonds** (A or above) - may be bought only through major banks or primary dealers which offer competitive secondary markets for the repurchase of the paper before maturity. Examples of banks and dealers are Bank of America, Goldman Sachs and J. P. Morgan. The longest maturity approved for commercial paper is 270 days. The longest maturity approved for corporate bonds is 5 years.

8.6 Prohibited Investments - The list of eligible securities contained in the California Government Code is extensive and includes a number of categories which are not suitable investments for City funds because of limitations in the liquidity of the instruments or the interest rates obtainable thereon. The categories in the list which have such limitations are:

Notes, bonds or other obligations issued by the Commonwealth of Puerto Rico.

The City shall not invest any funds pursuant to Section 53600, et. seq., in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages.

The City shall not invest any funds pursuant to Section 53600, et. seq., in any security that could result in zero interest accrual if held to maturity.

8.7 Exemptions - Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

9.0 Collateralization:

All City of Beverly Hills' investments shall be collateralized as required by the State Government Code.

The collateral for time deposits in local savings associations is held at the Federal Home Loan Bank. The collateral for time deposits in local banks is held in the City's name in the trust department of one of the banks with which the City has a current safekeeping agreement or with the Federal Reserve Bank.

Acceptable collateral instruments are U.S. Treasury or Federal Agency issues equal in market value to at least 110% of the City's deposit. Alternatively, prime seasoned first trust deeds equal in value to at least 150% of the City's deposit may also be placed by savings associations with the Federal Home Loan Bank, San Francisco to cover collateral requirements for the City.

Securities which serve as collateral for repurchase agreements with banks may be held in the issuing bank's trust department, provided that a master repurchase agreement has been executed insuring the fiduciary separation of these assets from other bank assets.

10.0 Safekeeping and Custody:

All security transactions, including collateral for repurchase agreements, entered into by the City of Beverly Hills shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian and evidenced by safekeeping receipts.

The transferring of investment funds will be carried out exclusively by use of the Federal Reserve Bank's electronic wire transfer system. Each Banker or Primary Dealer with which the City does business shall receive in writing from the City Treasurer and Chief Financial Officer or designee a listing which limits transfers of funds to pre-authorized bank accounts only.

The listing will also contain the names of the City staff authorized to request such transfers and will be updated in writing for changes of authorized staff and bank accounts as necessary.

Transfers from one account of the City to another shall require the request of only one authorized staff member. Transfers from the City's account to third parties shall require the request of two authorized staff members.

11.0 Maximum Maturities:

To the extent possible, the City of Beverly Hills will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five (5) years from the date of purchase.

12.0 Internal Control and Audits:

The Chief Financial Officer shall establish an annual process of independent review by an external auditor. This review may be part of the City's annual financial audit performed by an independent certified public accountant which is designed to meet the requirements of the federal Single Audit Act of 1984 and related Office of Management and Budget Circular A-128 or at any other time as determined by the Chief Financial Officer.

13.0 ~~Performance Standards~~Reporting:

~~The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment objectives as stated in this policy. The Investment Committee, as defined in Section 5.0 of this policy, shall review and update this Investment Policy annually and present the written, updated policy to the City Council for consideration and adoption as provided in Government Code Section 53646 et al. Quarterly Investment Reports shall also be prepared and presented to the City Council for acceptance as provided in Government Code Section 53646 et al.~~

14.0 Investment Policy Adoption:

The City Council shall consider and adopt a written Investment Policy annually and accept quarterly Investment Reports as provided in Government Code Section 53646 et al.

TABLE 1

<u>Investment Type</u>	<u>Dollar or Percent Limits</u>	<u>Maturity</u>	<u>Liquid</u>
1. <u>General Instruments</u>			
State Investment Fund (LAIF)	The maximum set by LAIF	On demand	Yes
U.S. Treasury Bonds, Notes & Bills	None	Not to Exceed (NTE) 5 yrs.	Yes
U.S. Government Agencies	None	NTE 5 yrs.	Yes
<u>Obligations of the State or any local agency or district of the State of California with a credit rating of "A1" or above before insurance.</u>	<u>25% of total portfolio</u>	<u>NTE 5 yrs.</u>	<u>Yes</u>
2. <u>Collateralized Investments</u>			
Repurchase Agreements	25% of total portfolio	NTE 7 days	Yes
Time Deposits - Bank & Savings Assoc.	\$ 100 250,000 per institution	NTE 1 year	Yes
3. <u>Uncollateralized Instruments</u>			
Negotiable Certificates of Deposit	30% of total portfolio	NTE 36 months	Yes
Medium Term Notes	<u>None</u>	NTE <u>3-5</u> years	Yes
Commercial Paper	<u>None</u>	NTE <u>270-360</u> days	Yes
Corporate Bonds	<u>None</u>	NTE <u>3-5</u> years	Yes
Bankers Acceptances	NTE 15%	NTE 180 days	Yes
<u>Other Instruments</u>	50% of total portfolio	<u>On demand</u>	<u>Yes</u>
Shares of "money market funds" which are sold without any sales commission or sales charge of any kind (true no-load funds) and which are rated AAAM by Standard & Poor's Corporation		<u>On demand</u>	<u>Yes</u>

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Attachment 2

FY 2009/2010 Investment Policy



City of Beverly Hills

Statement of Investment Policy

Fiscal Year 2009/2010

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and Retirement Health Savings Plan assets with the International City Manager's Association (ICMA). The ICMA invests employee account assets in various investment options as directed by the individual employee. Accordingly, these assets are neither controlled by the City nor subject to this investment policy.

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services in the State of California but shall not be limited to the City's list of approved broker/dealers.

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A current audited financial statement is required to be on file for each financial institution, broker/dealer and portfolio manager with which the City of Beverly Hills invests.

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Investable funds, which include funds not needed for the operation of the City, the Parking Authority or the Public Financing Authority, are determined by the Chief Financial Officer.

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For eligibility as a City investment, the following restrictions should be added to those contained in the California Government Code Sections 53601 et seq. They are:

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The principal and interest portions of U.S. Treasury securities are issued by the Federal Government. Frequently, broker/dealers make a market in these securities by separating the principal and interest components and marketing them separately. The principal portion of their "stripped" securities are marketed at deep discounts. "Strips" and "Cubes" do not provide income streams during the term of the investment, but rather pay a "par" amount at maturity. This makes these investments somewhat more volatile than standard U.S. Treasury securities.

As a result of the deep discounts on these investments, under certain circumstances, such as protection of principal, the City benefits from their usage. Because these instruments contain a slightly higher risk than normal U.S. Treasury securities and because they provide no income stream, the City will limit their usage to a maximum of \$35 million.

8.2 U.S. Government Agencies - There are numerous government agencies listed which issue debt instruments but many lack the liquidity necessary to fit

the City's portfolio requirements. Purchases of government agency securities should be limited to the issues of the Federal Farm Credit Bank, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank, and the Student Loan Mortgage Corporation.

8.3 Repurchase Agreements - A repurchase agreement is a contractual agreement between a financial institution or dealer and the City in which the City lends its funds to the financial institution or dealer for a certain number of days at a stated rate of interest. In return, the City takes title to securities as collateral until funds and interest are repaid.

Repurchase agreements may only be made with primary dealers of the Federal Reserve Bank of New York. The City will not enter into repurchase agreements for a period greater than 7 days. The market value of the collateral will not be less than the greatest of 102% of the funds borrowed against those securities or the sum of the funds borrowed against the securities plus accrued interest. And the security will be treasuries and agencies of the United States Government only.

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13.0 Reporting:

The Investment Committee, as defined in Section 5.0 of this policy, shall review and update this Investment Policy annually and present the written, updated policy to the City Council for consideration and adoption as provided in Government Code Section 53646 et al. Quarterly Investment Reports shall also be prepared and presented to the City Council for acceptance as provided in Government Code Section 53646 et al.

14.0 Investment Policy Adoption:

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TABLE 1

<u>Investment Type</u>	<u>Dollar or Percent Limits</u>	<u>Maturity</u>	<u>Liquid</u>
1. <u>General Instruments</u>			
State Investment Fund (LAIF)	The maximum set by LAIF	On demand	Yes
U.S. Treasury Bonds, Notes & Bills	None	Not to Exceed (NTE) 5 yrs.	Yes
U.S. Government Agencies	None	NTE 5 yrs.	Yes
Obligations of the State or any local agency or district of the State of California with a credit rating of "A1" or above before insurance.	25% of total portfolio	NTE 5 yrs.	Yes
2. <u>Collateralized Investments</u>			
Repurchase Agreements	25% of total portfolio	NTE 7 days	Yes
Time Deposits - Bank & Savings Assoc.	\$250,000 per institution	NTE 1 year	Yes
3. <u>Uncollateralized Instruments</u>			
Negotiable Certificates of Deposit	30% of total portfolio	NTE 36 months	Yes
Medium Term Notes	None	NTE 5 years	Yes
Commercial Paper	None	NTE 360days	Yes
Corporate Bonds	None	NTE 5 years	Yes
Bankers Acceptances	NTE 15%	NTE 180 days	Yes
<u>Other Instruments</u>	50% of total portfolio	On demand	Yes
Shares of "money market funds" which are sold without any sales commission or sales charge of any kind (true no-load funds) and which are rated AAAM by Standard & Poor's Corporation			