

**RESOLUTION NO. 6231**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF GARDENA, CALIFORNIA, ACKNOWLEDGING THE RECEIPT AND FILING OF THE ANNUAL STATEMENT OF INVESTMENT POLICY FOR THE FISCAL YEAR 2016-2017**

**WHEREAS**, the Governor of the State of California signed legislation into law effective January 1, 1996 (SB564); and

**WHEREAS**, this statement is intended to outline the policies for maximizing the efficiency of the City's Cash Management System and for prudent investment of the City's funds, and to provide guidelines for suitable investments.

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF GARDENA, CALIFORNIA, DOES HEREBY FIND, DETERMINE, AND RESOLVE AS FOLLOWS:**

SECTION 1. That the City Treasurer of the City of Gardena declares the annual Statement of Investment Policy for fiscal year 2016-2017 to be as follows:

**I. POLICY**

In accordance with State Law and under the authority granted by the City Council, the City Treasurer is responsible for investing the unexpended cash in the City Treasury. The investment of the City of Gardena's funds is directed to the goals of safety, liquidity and yield. The authority governing investments for municipal governments is set forth in the California Government Code, Sections 53601 through 53659. The City Treasurer shall attempt to obtain the highest yield using the average three months Treasury Bill as a bench mark, provided that all investments meet the criteria established for safety and liquidity.

Criteria for selecting investments and the order of priority are:

1. **Safety.** The safety and risk associated with an investment refers to the potential loss of principal, interest or a combination of these amounts. The City only operates in those investments or accounts considered safe as to their maintenance and protection.
2. **Liquidity.** This refers to the ability to convert accounts or instruments into cash. Liquidity is an important investment quality especially when the need for unexpected funds occurs occasionally.
3. **Yield.** Yield is the potential dollar earning on the original principal of the investment or cash account. and sometimes is described as the rate of return.

The investment policy and practices of the City Treasurer for the City of Gardena are based upon Federal, State, and Local law and prudent money management. The primary objectives of this policy are:

1. To protect the principal and asset holdings of the City's portfolio.
2. To ensure adequate liquidity is provided for the prompt, efficient handling of City's disbursement.

3. To generate the maximum amount of investment income within the parameter of this Statement of Investment Policy and the guidelines for suitable investments.

The ultimate goal is to enhance the economic status of the City while protecting its funds.

## **II. SCOPE**

The investment policy applies to all financial assets of the City of Gardena as accounted for in the City Annual Audited Report with some limited exceptions for Bonds Proceeds managed by the Trustees. Policy statements outlined in this document focus on the City of Gardena's pooled funds, but will also apply to all other funds under the City Treasurer's span of control unless exempted by resolution or statute. This policy is applicable, but not limited to all funds listed below:

- General City Account Funds
- Bus Lines Fund
- Sewer Fund
- Capital Improvement Funds
- Special Capital Improvements
- Liability Fund
- TRAN Proceeds
- Any new fund created by the Accounting Manager unless specifically exempted by resolution

One exception does exist regarding the investments of the bond reserve funds. The Trustee has no obligation in adhering to this policy due to the Bond Indenture Agreement. However, the Trustee shall consult with the Treasurer for guidelines and recommendations.

## **III. PRUDENCE**

Generally, investments shall be made in the context of the "Prudent Investor" rule which states that: "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."

It is the City's full intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars. However, it is realized that market prices of securities will vary depending on economic and interest rate conditions at any point in time. It is further recognized, that in a well-diversified investment portfolio, occasional measured losses are inevitable due to uncontrollable forces in the economy and bond market. These occasional losses must be within the context of the overall investment program and the resultant long term rate of return.

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

#### IV. OBJECTIVES

##### A. SAFETY OF PRINCIPAL

Safety of principal is the foremost objective of the City of Gardena. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker-dealer default or erosion of market value. The City shall seek to preserve principal by mitigating the two types of risk, credit risk and market risk.

Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer does not unduly harm the City's capital base and cash flow.

Market risk, defined as market value fluctuations due to overall, changes in the general level of interest rates, shall be mitigated by limiting the average maturity of the City's investment portfolio to two years, the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis eliminating the need to sell securities prior to maturity and avoiding the purchase of long term securities for the sole purpose of short term speculation.

##### B. LIQUIDITY

Because the City operates its own Bus Lines, cash flow is generated on a daily basis. Historical cash flow trends are compared to current cash flow requirements on an ongoing basis in an effort to ensure that the City's investment portfolio will remain sufficiently liquid to enable the City to meet all reasonable anticipated operating requirements.

##### C. COLLATERAL REQUIREMENTS

Collateral are required for investments in certificates of deposit, repurchase agreements and reverse repurchase agreements. In order to reduce market risk, the collateral level will be at least 110% of market value of principal and accrued interest.

In order to conform with the provisions of the Federal Bankruptcy Code, which provides for liquidation of securities held as collateral, the only securities acceptable as collateral shall be certificates of deposit, commercial paper, eligible banker's acceptances, medium term notes or securities that are the direct obligation of, or are fully guaranteed as to principal and interest by, the United States or any agency of the United States.

#### V. AUTHORIZED INVESTMENT

The City is governed by the Government Code, Section 53600 et seq. The temporarily idle funds of the City of Gardena shall only be invested in securities and diversified within the context of these limitations. The following investments are authorized, as further limited herein:

1. **United States Treasury Bills, Notes and Bonds**, or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no limitation as to the percentage of the City's surplus funds which can be invested. The maximum maturity length shall not exceed 5 years.
2. **Securities issued or guaranteed by the full faith and credit of the United States Government or its agencies, which include, but are not limited to: FDIC, FFCB, FHLB, FNMA, FHLMC, GMNA, TVA.** Although there is no percentage limitation on these issues, the "prudent investor" rule shall apply for a single agency name, as U.S. Government backing is implied rather than guaranteed. The maximum maturity length shall not exceed 5 years.

*Investments detailed in items 3 through 10 are further restricted to percentage of the cost value of the portfolio in any one issuer to a maximum of 15%. The total value invested in any one issuer shall not exceed 5% of the issuer's net worth. Again, a five year maximum maturity limitation is applicable unless further restricted by this policy.*

3. **Bill of Exchange** or time drafts drawn on and accepted by a commercial bank, otherwise known as **banker's acceptance**. Banker's acceptances purchased may not exceed 180 days maturity or 40% of the City's temporarily idle funds.
4. **Commercial paper** ranked "P1" by Moody's Investor Services and "A1+" by Standard and Poor's, and issued by a domestic corporation having assets in excess of \$500,000,000 and having an "AA" or better rating on its long term debentures as provided by Moody's or Standard and Poor's. Purchase of eligible commercial paper may not exceed 270 days maturity nor represent more than 10% of the outstanding paper of an issuing corporation. Purchase of commercial paper may not exceed 15% of the City's surplus funds.
5. **Negotiable certificates of deposit** issued by a nationally or State-Chartered Bank or a State or Federal Savings and Loan Association. Purchase of negotiable certificates of deposit may not exceed 30% of total portfolio. A maturity limitation of five years is applicable
6. **Repurchase agreements**. The City may invest in repurchase agreements with banks and dealers with which the City has entered into a master repurchase agreement contract that specifies terms and conditions of repurchase agreements. The maturity of repurchase agreements shall not exceed 90 days. The underlying securities are to be United States Treasuries or Agencies that have a market collateral value that equals 102% of the repurchase agreement amount including accrued interest. The maximum maturity of that collateral is not to exceed 5 years.
7. **Reverse repurchase agreements** that specify terms and conditions may be transacted with broker dealers and financial institutions, but cannot exceed 20% of the portfolio value on the date entered into. The City may enter into reverse repurchase agreements which may not exceed 90 days.
8. **Local Agency Investment Fund**. The City may invest in the Local Agency Investment Fund (LAIF) established by the State Treasurer for the benefit of local agencies up to the maximum permitted by State law
9. **Time Deposit**. The City may invest in non-negotiable, collateralized time deposits, in accordance with the California Government Code, in those banks and savings and loan associations that meet the requirements for investment in negotiable certificates of deposit. Since time deposits are not liquid, no more that 25% of the temporarily idle fund may be invested in this category
10. **Medium Term Corporate Notes**, with a maximum maturity of five years, may be purchased. Securities eligible for investment shall be rated AA or better by Moody's or Standard & Poor's rating services. Purchase of medium term notes may not exceed 30% of the market value of the portfolio and not more than 15% of the market value of the portfolio may be invested in notes issued by one corporation. Commercial paper holdings should also be included when calculating the 15% limitation
11. **Mutual Funds** investments held by City must restrict their underlying investments to subsection "A" through "J" of 53601 of the Government Code or subsections "M" or "N" of 53601 of the Government Code. Mutual Funds held by the City will have a maximum maturity of five (5) years, will not exceed twenty (20%) percent of the portfolio, and will have a minimum rating of *AAA or AAI by Moody's and AAA or AA+ by S&P*. Mutual Fund investments will be made in accordance with section 53601(k) (1) of the Government Code

12. **Mutual Funds (Money Market Funds)** held by the City will have a maximum maturity of 90 days, will not exceed twenty (20%) percent of the City's portfolio, and will have a minimum rating of AAA or Aa by either Moody's or S&P. Mutual Fund investments will be made in accordance with section 53601(k) (2) of the Government Code.
13. **Investment Trust of California (CalTRUST)**. The City may invest in shares issued by CalTRUST in accordance with Section 53601(p) of the Government Code. CalTRUST is a joint power authority created for the benefit of local agencies.
14. **Ineligible investments**. Investments not described herein, including, but not limited to common stocks are prohibited from the use in this fund.

**VI. QUALIFIED DEALERS AND INSTITUTION**

The City shall transact business only with banks, savings and loans and registered investment dealers. The purchase by the City of any Investment other than those purchased directly from the issuer, shall be purchased either from an institution licensed by the State as a broker-dealer, as defined in Section 25004 of the Corporations Code, who is a member of the National Association of Securities Dealers, or a member of a Federally regulated securities exchange, a National or State-Chartered Bank, A Federal or State Association (as defined by Section 5102 of the Financial Code), or a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank.

**VII. SAFEKEEPING OF SECURITIES**

To protect against potential losses caused by collapse of individual securities dealers, all securities owned by the City except securities used as collateral repurchased agreements, shall be kept in safekeeping with "perfect interest" by a third party bank trust department, acting as agent for the City under the terms of a custody agreement executed by the bank and by the City. All securities will be received and delivered using standard delivery-vs.-payment procedures.

**VIII. INVESTMENT REPORTING AND MONTHLY REPORT**

The Treasurer shall render a monthly report to the City Council showing the type of investment, institution, date of maturity, par value of investment, cost basis of investment, current market value change of all securities, rate of interest, interest earned, gains and losses and such data as may be required by the City Council. The report shall also detail all repurchase agreements, and shall state its relationship to this Statement of Investment Policy as directed under the Code and will be in compliance with GASB #34.

**IX. PERFORMANCE MEASUREMENTS OF PORTFOLIO**

The City Treasurer shall include in the monthly report of investment activity performance measurements comparing the current month's yield with the three-month average Treasury Bill.

**X. INVESTMENT CONTROLS**

The City Treasurer has developed a system of internal investment controls and a segregation of responsibilities of investment functions. These controls are designed to prevent losses of public funds arising from fraud, employee error, misrepresentation of third parties, or imprudent actions by employees and officers of the Treasurer's staff.

**XI. ETHICS AND CONFLICT OF INTEREST**

Officers 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 investment decisions.

**XII. LEGISLATIVE CHANGES**

Any State of California legislative action, that further restricts allowable maturities, investment type or percentage allocations, will be incorporated into the City of Gardena's Investment Policy and supersede any and all previous applicable language.

**XIII. DELEGATION OF AUTHORITY**

In the absence of the City Treasurer, the authority to execute investment transactions affecting the City's temporarily idle funds will be restricted to the Deputy Treasurer.

**XIV. LIMITING MARKET VALUE EROSION**

The longer the maturity of securities, the greater their market price volatility. Therefore, it is the general policy of the City to limit the potential effects from erosion in market values by adhering to the following guidelines:

1. All immediate and anticipated liquidity requirements will be addressed prior to purchasing all investment.
2. Maturity dates for long-term investment will coincide with significant cash flow requirements where possible, to assist with short term cash requirements at maturity.
4. All long-term securities will be purchased with the intent to hold all investments to maturity under then prevailing economic conditions. However, economic or market conditions may change, making it in the City's best interest to sell or trade a security prior to maturity.

**XV. POLICY REVIEW**

This Investment Policy shall be reviewed at least annually to ensure its consistency with the overall objectives of **SAFETY, LIQUIDITY and YIELD** and its relevance to current law, financial and economic trends, and to meet the needs of the City of Gardena. Any amendments to the policy shall be forwarded to City Council for approval.

SECTION 2. An annual statement of investment policy for the City of Gardena has been filed by the City Treasurer for fiscal year 2016-2017 in compliance with Section 53646(A) (2) of the Government Code of the State of California.

SECTION 3. That this resolution shall be effective immediately upon adoption by the City Council.

SECTION 4. That the City Clerk shall certify to the passage and adoption of this resolution; shall cause the same to be entered among the original resolutions of said City; and shall make a minute of the passage and adoption thereof in the records of the proceedings of the City Council of said City in the minutes of the meeting at which the same is passed and adopted.

Passed, approved, and adopted this 14<sup>th</sup> day of June 2016.

  
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PAUL K. TANAKA, Mayor

ATTEST:

  
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MINA SEMENZA, City Clerk

APPROVED AS TO FORM:

  
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PETER L. WALLIN, City Attorney

STATE OF CALIFORNIA            )  
COUNTY OF LOS ANGELES       ) SS:  
CITY OF GARDENA                )

I, **MINA SEMENZA**, City Clerk of the City of Gardena, do hereby certify that the whole number of members of the City Council of said City is five; that the foregoing Resolution, being **Resolution No. 6231** duly passed and adopted by the City Council of said City of Gardena, approved and signed by the Mayor of said City, and attested by the City Clerk, all at a regular meeting of said City Council held on the **14th** day of **JUNE, 2016**, and that the same was so passed and adopted by the following roll call vote:

AYES:     COUNCIL MEMBERS TERAUCHI, MEDINA AND MAYOR PRO TEM  
          HENDERSON, AND COUNCIL MEMBER CERDA AND MAYOR TANAKA

NOES:     NONE

ABSENT:  NONE

*for* Becky Romero  
City Clerk of the City of Gardena, California

(SEAL)