



# Council Agenda Report

To: Mayor Pierson and the Honorable Members of the City Council

Prepared by: Ruth Quinto, City Treasurer

Reviewed by: Lisa Soghor, Assistant City Manager

Approved by: Reva Feldman, City Manager

Date prepared: April 7, 2021 Meeting date: April 26, 2021

Subject: Adoption of Revised Investment Policy

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**RECOMMENDED ACTION:** Adopt Resolution No. 21-19 rescinding Resolution Nos. 07-01, 13-12, and 14-17 and approving the City of Malibu Investment Policy.

**FISCAL IMPACT:** There is no fiscal impact associated with updating the Investment Policy; however, the Investment Policy establishes the procedures for the City to invest available funds that can generate interest earnings.

**WORK PLAN:** This item was not included in the Adopted Work Plan for Fiscal Year 2020-2021. This project is part of normal staff operations.

**DISCUSSION:** The City of Malibu's Investment Policy was originally adopted by Resolution No. 07-01 on January 8, 2007. On April 22, 2013, the Council adopted Resolution No. 13-12 approving a revision of the Investment Policy. On May 12, 2014, the Council adopted Resolution No. 14-17 approving further revisions to the City of Malibu's Investment Policy.

Since that time, the City Council has appointed a new City Treasurer who has reviewed the existing policy. As part of her duties, the City Treasurer is recommending some minor changes to the existing policy to ensure consistency with State law and best practices.

The City Treasurer has evaluated the current investment policy to ensure compliance with:

- SB 998, which was effective January 1, 2021; and
- Best practices as provided by the Government Finance Officers Association.

As a result of the review, no material changes are recommended at this time to the City’s Investment Policy. There are, however, a few minor changes as noted in the attached redline draft in sections I, IV, VII, and IX. The City’s Investment Policy is conservative in nature and establishes regulations that limit the City’s financial exposure. The City’s independent auditor, Lance, Soll and Lunghard, review the City’s Investment Policy and compliance with the policy as part of its annual audit of the City’s finance. The results of the auditor’s review of the Investment Policy are reported in the City’s Annual Comprehensive Financial Report (CAFR).

The key aspects of SB 998, as compared to those in the City’s investment policy, are as follows:

<b>Criteria</b>	<b>SB 998</b>	<b>City Policy</b>
Commercial Paper – Total	Less than 25%	Less than 15%
Commercial Paper – Single Issuer	Less than 10%	Less than 5%
US Government – Zero or Negative Yields	Allowable	Not allowable

As demonstrated above, the City’s Investment Policy is more conservative in limiting otherwise higher levels of potential risk. Therefore, the City Treasurer recommends the minor changes, mostly clerical in nature, as illustrated in the redline version of the Investment Policy (Attachment 1); however, no material changes are recommended at this time.

On April 1, 2021, the Administration and Finance Subcommittee discussed the Investment Policy and recommended approval. Government Code Section 53646 requires that the City Council approve any revisions to the Investment Policy.

**ATTACHMENTS:**

1. Proposed City of Malibu Investment Policy, Revised April 2021 (redline version)
2. Resolution No. 21-19

# City of Malibu Investment Policy

## I. POLICY STATEMENT

This policy establishes the limits within which the City's Investment Program shall be conducted. Investment goals and objectives are defined. Qualified investment instrumentalities and reporting requirements are identified. Authority, accountability, audit control and procedures governing the investment program are delineated.

The investment policies and practices of the City of Malibu are based upon state law, city ordinance and prudent ~~money~~treasury management.

## II. SCOPE

This Investment Policy applies to all funds under the control of the Investment Officer, unless there exists express prohibitions against the investment of such funds. These funds are accounted for in the City of Malibu's Comprehensive Annual Financial Report and include the general fund, special revenue funds, internal service funds, capital improvement funds, trust funds, any new fund created from proceeds of bond sales in the custody of the Investment Officer or any other funds under his/her control. This policy does not apply to the employees' deferred compensation funds, the Public Employee Retirement System (CalPERS) funds or the Public Agency Retirement Service funds (PARS), which are administered separately.

## III. PRUDENCE

Pursuant to California Government Code Section 53606.3 as amended, the City Council and all people authorized to make investment decisions on behalf of the City are trustees of the public funds and therefore fiduciaries subject to the following prudent investor standard:

When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, a trustee shall act with care, 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 principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

The Investment Officer and other individuals who are assigned to manage the investment portfolio will be relieved of personal responsibility as individual security's credit risk or market price changes, provided that they are acting in accordance with the City's Investment Policy and in reasonable reliance on existing California statutes and have properly exercised due diligence, provided deviations from expectations are reported in a timely fashion and appropriate

action is taken to control adverse developments.

#### **IV. INVESTMENT OBJECTIVES**

The City invests in full compliance with all governing laws and its own investment policy adopted by the City Council. It ensures that all investments are safe by preserving the principal of the investment. It seeks to maximize the amount of cash on hand, which is invested, but only after assuring adequate liquidity (accessible cash or other readily marketable assets), which allows the City to properly satisfy its short-term liabilities when they are due.

The criteria for selecting investments by order of priority shall be:

1. **Safety**: Safety of principal is the City of Malibu's foremost objective. Investments shall seek to ensure that capital losses resulting from institution default, broker-dealer default or the erosion of market value are avoided. The City of Malibu shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.
  - a. Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in only the highest quality securities (see Section XII Authorized and Suitable Investments) and by diversifying the investment portfolio so that the failure of any one issuer would not unduly harm the City's cash flow.
  - b. Market risk, defined as the risk of market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by structuring the portfolio to eliminate the need to sell securities prior to maturity and by prohibiting the taking of short positions, that is, selling securities that the City does not own. It is explicitly recognized, however, that in a diversified portfolio, occasional measured losses may occur and must be considered within the context of overall investment return.
2. **Liquidity**: The portfolio will be structured with sufficient liquidity to allow the City to meet expected cash requirements. It is the City's objective to maintain at least 50 percent of the General Fund operating budget in short-term securities of one year or less (see Section XIII Maturity Goals).
3. **Yield**: In a manner consistent with the objectives of safety of principal and liquidity uppermost, a yield higher than the market rate of return shall be sought.
4. **Cash Obligation**: It shall be the policy of the City that all idle funds shall be invested consistent with providing adequate cash to meet the City's obligation.

#### **V. INVESTMENT COMMITTEE**

The City Manager, City Treasurer, Assistant City Manager and the Administration and Finance Subcommittee of the City Council shall serve as the Investment

Committee. This committee will meet as needed to review the City's investments and related policies.

## **VI. REQUIRED REPORTING**

The following report shall be provided to the City Council:

1. A quarterly investment report (as required by Government Code Section 53601 which will include the type of investment, issuer, date of maturity, par and dollar amount invested and market value for each security held by the City. The report shall state the source of the market value valuation and include a statement denoting the ability to meet the City's expected expenditure requirements for the next six months. This report shall be issued in coordination with the quarterly financial reports to the City Council.

## **VII. AUTHORIZED FINANCIAL INSTITUTIONS AND BROKER/DEALERS**

- A. General criteria for the selection of financial institutions and broker/dealers have been developed by the City Manager and are contained herein.
- B. Selection of financial institutions and broker/dealers shall be performed by authorized City staff under direction of the Investment Committee. Every three to five years, the City will distribute a Broker/Dealer Questionnaire to interested and known financial institutions and broker/dealers. The Investment Officer will maintain a list of qualified broker/dealers authorized to provide investment service to the City of Malibu. Qualified broker/dealers selected to do business with the City shall submit annually a current audited financial statement. After the adoption of the City's Investment Policy by the City Council, a copy shall be sent to all broker/dealers approved to do business with the City. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the City's investment policies and intends to sell the City only appropriate investments authorized by this investment policy.
- C. Selection of specific institutions in which City funds may be invested shall be performed by the Investment Officer and reviewed by the City Investment Committee.

## **VIII. SAFEKEEPING AND CUSTODY**

To protect against potential losses by the collapse of individual securities dealers, all securities owned by the City shall be held in safekeeping by a third party bank trust department acting as agent for the City under the terms of a custody agreement executed by the bank and the City. All securities will be received and delivered using standard delivery versus payment procedures.

## **IX. ACCOUNTABILITY AND AUTHORITY**

The Malibu Municipal Code vests authority for and control of investments to the City Treasurer. In the event that the office of the City Treasurer is vacant, the City Manager assumes the responsibilities of the City Treasurer. Daily management responsibility of the investment program may be delegated to other qualified ~~and competent~~ employees of the City, who shall follow procedures for operation consistent with the investment policy.

**X. ETHICS AND CONFLICTS OF INTEREST**

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program or impairs their ability to make impartial investment decisions. Additionally, the Investment Officer is required to annually file a Statement of Economic Interest as mandated by Government Code Section 91013.

**XI. INTERNAL CONTROL**

The Investment Officer shall establish procedures for controlling daily investment transactions and monthly reconciliations of accounts. The investment portfolio and all related transactions are balanced to appropriate general ledger accounts by the Administrative Services Department on a monthly basis. Such procedures and controls shall be subject to review and comments by the City's independent auditor.

**XII. AUTHORIZED AND SUITABLE INVESTMENTS**

A. Qualifying Investment Instruments Policy:

1. The following instruments are generally approved as qualifying investment instruments for City funds:
  - a. Local Agency Investment Fund (LAIF) of the State of California
  - b. Obligations of the U.S. Government, its agencies and instrumentalities
  - c. Certificates of deposit with banks and savings and loans doing business in the State of California
  - d. Prime Banker's Acceptances
  - e. Prime Commercial Paper
  - f. Municipal Bonds of governmental agencies in the State of California rated AAA or AA. This shall include cities, counties, universities, community colleges and school districts
  - g. Repurchase Agreements and Money Market Funds whose underlying collateral consists of the foregoing. (The City may invest in repurchase agreements with which the City has entered into a master repurchase contract, which specifies terms and conditions of repurchase agreements.)
  - h. Pools and other investments structures incorporating investments listed in a. through f.

B. Diversions by Type of Investment:

The City is governed by California Government Code, Sections 53600 et seq. It shall be the policy of the City that investments shall be diversified with respect to the type of investment instruments used. Within the context of these limitations, the following investments are generally approved as qualifying investment instruments for City funds, as further limited herein:

1. 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 amount permitted by State Law. It shall be the goal of the City of Malibu to maintain a minimum balance of 50 percent of the General Fund operating budget in LAIF or other short-term securities of one year or less.
2. United States Treasury Bills, Bonds and Notes 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 portfolio which can be invested in this category.
3. Obligation issued by the United States Government Agencies, such as the Federal Farm Credit Bank System (FFCB) and the Federal Home Loan Bank Board (FHLB).
4. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as banker's acceptances. Banker's acceptances purchased may not exceed 180 days to maturity or 20 percent of the market value of the portfolio. No more than 10 percent of the market value of the portfolio may be invested in banker's acceptances issued by any one bank.
5. 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 million and having an A or better rating on its long-term debentures as provided by Moody's or Standard and Poor's. Purchases of eligible commercial paper may not exceed 15 percent of the market value of the portfolio. No more than 5 percent of the market value of the portfolio may be invested in commercial paper issued by any one corporation.
6. Money market funds are limited to 20 percent of the market value of the portfolio. The funds must be rated in the highest category of Moody's or Standard and Poor's, or must be administered by a domestic bank with long-term debt rated in one of the top two categories of Moody's or Standard and Poor's. A thorough investigation of any money market fund or investment pool is required prior to investing, as well as on an ongoing basis. The following information should be obtained and analyzed:
  - a. A description of eligible investment securities
  - b. A written statement of investment policies and objectives
  - c. A description of interest calculations and their distribution, and the treatment of gains and losses
  - d. A description of how the securities are safeguarded and how often the securities are priced and the program audited
  - e. Information about the size and frequency of deposits and withdrawals allowed and how much notice is needed for withdrawals

- f. A schedule for receiving statements and portfolio listings
- g. A fee schedule, as well as how and when the fees are assessed
- h. The rating of the pool/fund
- i. Information about investment advisors, including registration with the Securities and Exchange Commission, length of experience and total assets under management

#### C. Ineligible Investments.

Investments not described herein, including, but not limited to common stocks and corporate bonds, are prohibited from use in this portfolio. Investments which exceed five years in maturity require authorization by the City Council prior to purchase. Further, any investments that are in the form of inverse floaters, range notes or mortgage-derived interest-only strips are prohibited.

#### D. Diversification by Institution.

1. Not more than \$100,000 shall be placed in any qualifying institution unless collateralized in accordance with this policy.
2. All certificates of deposit investments shall be collateralized by government securities with a market value of 110 percent of the City's investment or mortgages in value equal to 150 percent of the City's investments. Each investment institution must meet specific financial criteria as determined by the City Treasurer.
3. With the exception of LAIF, in no event may any institution have City investments exceeding \$5,000,000 without approval of the Investment Committee. This restriction shall not apply for periods of seven days or less when the City is receiving substantial funds (e.g., proceeds of bond sales) or is consolidating funds for a major transaction.

#### E. Collateralization

1. An independent third party with whom the City has a current custodial agreement must always hold collateral.
2. State law regarding collateralization of deposits of public funds requires that securities be held by an agent (i.e. a trust company) of the bank, which may include the bank's trust department only if acceptable to both the bank and the Treasurer, pursuant to California Government Code Section 53656 and 53658. Under the provision of California Government Code Section 53652, banks are required to secure the deposits of public funds, including certificates of deposits, by: a) pledging government securities with a value of 110 percent of the principal and accrued interest; b) pledging first trust deed mortgage notes having a value 150 percent of the total agency deposit; or c) a letter of credit drawn on the Federal Home Loan Bank of 105 percent of the total agency deposit. Deposits must be secured at all times with eligible securities pursuant to Section 53651.



3. Collateralization of repurchase agreements must be at least 102 percent of the market value of principal and accrued interest. Collateral must consist of U.S. Treasury obligations or U.S. Agency obligations. Other specific requirements on repurchase agreements must be addressed in a master repurchase agreement by the City and the financial institution or broker/dealer.

### **XIII. MATURITY GOALS**

- A. Subject to the availability of funds short-term investments (maturity of one year or less) of the City shall not be less than 50 percent of the General Fund's annual operating budget of the City.
- B. The percentage of the City's portfolio that may be invested intermediate- term (maturity term over one year and not greater than five years) shall be determined by the Investment Officer based on cash requirements.
- C. Long-term investments (over five years to maturity date) shall be made only after review and approval by the City Council. Accordingly, no fixed percentage of the City's portfolio is designated for long-term investments.
- D. Additional and/or clarifying maturity guidelines shall be adopted from time to time as devised by the Investment Officer and reviewed by the Investment Committee.

### **XIV. POLICY REVIEW**

This Investment Policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity, yield and its relevance to current law and financial and economic trends. If changes are made, the City of Malibu's Investment Policy must be approved by the City Council.

### **XV. INVESTMENT PROCEDURES**

The Investment Officer shall establish written investment policy procedures for the day- to-day operations of the investment program consistent with this policy. The procedures should include reference to cash balancing, safekeeping, wire transfer agreements, collateral/depository agreements and the selection process for financial institutions and broker/dealers. The procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer.

### **XVI. INVESTMENT STRATEGY AND PERFORMANCE STANDARDS**

The City shall maintain a laddered portfolio of various maturity dates ranging from 30 days to 5 years and the investment strategy will generally be passive (buy and hold). Given this strategy, the basis used by the Treasurer to determine whether market yields are being achieved shall be to identify a comparable benchmark to the City's portfolio investment duration. Given the liquidity objective and the portfolio duration, the 2-year U.S. Treasury Note shall be the City's selected benchmark.



## **GLOSSARY OF TERMS**

*Agencies* - Agencies of the Federal government set up to supply credit to various classes of institutions (e.g., S&Ls, small business firms, students, farmers, housing agencies, etc.)

*Asked* - The price at which securities are offered

*Bankers Acceptance (BA)* - A draft, bill or 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* - Price a prospective buyer is ready to pay

*Brokered CD* - A Certificate of Deposit account established at an insured bank by an agent or broker that represents the deposits of one or multiple investors

*Broker/Dealer* - Individual or firm acting as principal in securities transactions

*Callables* - Securities that the issuer has the right to redeem prior to maturity

*Certificates of Deposit (CD)* - A time deposit with a specific maturity evidenced by a certificate

*Collateral* - Securities pledged to secure repayment of a loan

*Comprehensive Annual Financial Report (CAFR)* - An official annual financial report. 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.

*Coupon* - a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value; and b) A certificate attached to a bond evidencing interest due on a payment date.

*Custody* - A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement, which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

*Debenture* - A bond secured only by the general credit of the issuer

*Delivery vs. Payment* - There are two methods of delivery of securities: Delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with a simultaneous exchange of money. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

*Derivatives* - a) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging

factor; b) Financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities)

*Discount* - The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

*Discount Securities* - Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills

*Diversification* - Dividing investment funds among a variety of securities offering independent returns

*Federal Credit Agencies* - Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&Ls, small business firms, students, farmers, farm cooperatives and exporters

*Federal Deposit Insurance Corporation (FDIC)* - A federal agency that insures bank deposits. The basic FDIC insurance amount is \$250,000 per depositor, per bank, per ownership category. Deposits held in different ownership categories, such as single, joint, trust, and retirement, are separately insured, when the requirements for each ownership category are met, even if held at the same bank.

*Federal Funds Rate* - The rate of interest associated with borrowing a federal reserve bank's excess reserves. This rate is currently pegged by the Federal Reserve through open-market operations.

*Federal Home Loan Banks (FHLB)* - Government-sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to member commercial banks, draft institutions, credit unions and insurance companies. The mission of FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district bank.

*Intermediate Maturity*- Investment period greater than one year but less than five years and one day.

*Investment Officer* - The Investment Officer shall be the City Treasurer or, in his/her absence, the City Manager (see Section IX).

*Liquidity* - The ability to turn an asset into cash. The ability to buy or sell an asset quickly and in large volume without substantially affecting the asset's price.

*Long-Term Maturity*- Investment period greater than five years.

*Market Value* - The price at which a security is trading, usually the liquidation value.

*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 repurchase agreement will often specify 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 (e.g. Treasury bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

*Offer* - The price at which someone who owns a security offers to sell it; also known as the asked price.

*Qualified Investment* - An investment instrument which is approved by this policy or pursuant to procedures set forth in this policy.

*Safety*- The ability of a security issuer to guarantee redemption of their security.

*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 Bonds* - Medium-term coupon bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

*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 ten years.

*Yield*- Percentage rate of interest received versus the purchase price of the instrument if held to maturity.

RESOLUTION NO. 21-19

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MALIBU  
RESCINDING RESOLUTION NOS. 07-01, 13-12, AND 14-17 AND  
APPROVING THE CITY OF MALIBU INVESTMENT POLICY

The City Council of the City of Malibu does hereby find, order and resolve as follows:

SECTION 1. Section 53646 of the Government Code of the State of California requires the City of Malibu to adopt an investment policy.

SECTION 2. On January 8, 2007, the City Council adopted Resolution No. 07-01 approving the City of Malibu's Investment Policy.

SECTION 3. On April 22, 2013, the City Council adopted Resolution No. 13-12 approving a revision of the Investment Policy.

SECTION 4. On May 12, 2014, the City Council adopted Resolution No. 14-17 approving further revisions to the Investment Policy.

SECTION 5. Since May 12, 2014, changes to the City of Malibu Investment Policy are needed.

SECTION 6. Resolution Nos. 07-01, 13-12, and 14-17 are hereby rescinded.

SECTION 7. The City Council hereby approves the City of Malibu Investment Policy, hereby attached as Exhibit A.

SECTION 8. This resolution shall become effective on April 26, 2021.

SECTION 9. The City Clerk shall certify to the passage and adoption of this resolution and enter it into the book of original resolutions.

PASSED, APPROVED AND ADOPTED this 26<sup>th</sup> day of April 2021.

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MIKKE PIERSON, Mayor

ATTEST:

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KELSEY PETTIJOHN, Acting City Clerk  
(seal)

APPROVED AS TO FORM:

THIS DOCUMENT HAS BEEN REVIEWED  
BY THE CITY ATTORNEY'S OFFICE

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JOHN COTTI, Interim City Attorney

## Exhibit A

**I. POLICY STATEMENT**

This policy establishes the limits within which the City's Investment Program shall be conducted. Investment goals and objectives are defined. Qualified investment instrumentalities and reporting requirements are identified. Authority, accountability, audit control and procedures governing the investment program are delineated.

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The Malibu Municipal Code vests authority for and control of investments to the City Treasurer. In the event that the office of the City Treasurer is vacant, the City Manager assumes the responsibilities of the City Treasurer. Daily management responsibility of the investment program may be delegated to other qualified employees of the City, who shall follow procedures for operation consistent with the investment policy.

**X. ETHICS AND CONFLICTS OF INTEREST**

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program or impairs their ability to make impartial investment decisions. Additionally, the Investment Officer is required to annually file a Statement of Economic Interest as mandated by Government Code Section 91013.

#### **XI. INTERNAL CONTROL**

The Investment Officer shall establish procedures for controlling daily investment transactions and monthly reconciliations of accounts. The investment portfolio and all related transactions are balanced to appropriate general ledger accounts by the Administrative Services Department on a monthly basis. Such procedures and controls shall be subject to review and comments by the City's independent auditor.

#### **XII. AUTHORIZED AND SUITABLE INVESTMENTS**

##### **A. Qualifying Investment Instruments Policy:**

1. The following instruments are generally approved as qualifying investment instruments for City funds:
  - a. Local Agency Investment Fund (LAIF) of the State of California
  - b. Obligations of the U.S. Government, its agencies and instrumentalities
  - c. Certificates of deposit with banks and savings and loans doing business in the State of California
  - d. Prime Banker's Acceptances
  - e. Prime Commercial Paper
  - f. Municipal Bonds of governmental agencies in the State of California rated AAA or AA. This shall include cities, counties, universities, community colleges and school districts
  - g. Repurchase Agreements and Money Market Funds whose underlying collateral consists of the foregoing. (The City may invest in repurchase agreements with which the City has entered into a master repurchase contract, which specifies terms and conditions of repurchase agreements.)
  - h. Pools and other investments structures incorporating investments listed in a. through f.

##### **B. Diversions by Type of Investment:**

The City is governed by California Government Code, Sections 53600 et seq. It shall be the policy of the City that investments shall be diversified with respect to the type of investment instruments used. Within the context of these limitations, the following investments are generally approved as qualifying investment instruments for City funds, as further limited herein:

1. 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 amount permitted by State Law. It shall be the goal of the City of Malibu to maintain a minimum balance of 50 percent of the General Fund operating budget in LAIF or other short-term securities of one year or less.
2. United States Treasury Bills, Bonds and Notes 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 portfolio which can be invested in this category.
3. Obligation issued by the United States Government Agencies, such as the Federal Farm Credit Bank System (FFCB) and the Federal Home Loan Bank Board (FHLB).
4. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as banker's acceptances. Banker's acceptances purchased may not exceed 180 days to maturity or 20 percent of the market value of the portfolio. No more than 10 percent of the market value of the portfolio may be invested in banker's acceptances issued by any one bank.
5. 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 million and having an A or better rating on its long-term debentures as provided by Moody's or Standard and Poor's. Purchases of eligible commercial paper may not exceed 15 percent of the market value of the portfolio. No more than 5 percent of the market value of the portfolio may be invested in commercial paper issued by any one corporation.
6. Money market funds are limited to 20 percent of the market value of the portfolio. The funds must be rated in the highest category of Moody's or Standard and Poor's, or must be administered by a domestic bank with long-term debt rated in one of the top two categories of Moody's or Standard and Poor's. A thorough investigation of any money market fund or investment pool is required prior to investing, as well as on an ongoing basis. The following information should be obtained and analyzed:
  - a. A description of eligible investment securities
  - b. A written statement of investment policies and objectives
  - c. A description of interest calculations and their distribution, and the treatment of gains and losses
  - d. A description of how the securities are safeguarded and how often the securities are priced and the program audited
  - e. Information about the size and frequency of deposits and withdrawals allowed and how much notice is needed for withdrawals

- f. A schedule for receiving statements and portfolio listings
- g. A fee schedule, as well as how and when the fees are assessed
- h. The rating of the pool/fund
- i. Information about investment advisors, including registration with the Securities and Exchange Commission, length of experience and total assets under management

#### C. Ineligible Investments.

Investments not described herein, including, but not limited to common stocks and corporate bonds, are prohibited from use in this portfolio. Investments which exceed five years in maturity require authorization by the City Council prior to purchase. Further, any investments that are in the form of inverse floaters, range notes or mortgage-derived interest-only strips are prohibited.

#### D. Diversification by Institution.

1. Not more than \$100,000 shall be placed in any qualifying institution unless collateralized in accordance with this policy.
2. All certificates of deposit investments shall be collateralized by government securities with a market value of 110 percent of the City's investment or mortgages in value equal to 150 percent of the City's investments. Each investment institution must meet specific financial criteria as determined by the City Treasurer.
3. With the exception of LAIF, in no event may any institution have City investments exceeding \$5,000,000 without approval of the Investment Committee. This restriction shall not apply for periods of seven days or less when the City is receiving substantial funds (e.g., proceeds of bond sales) or is consolidating funds for a major transaction.

#### E. Collateralization

1. An independent third party with whom the City has a current custodial agreement must always hold collateral.
2. State law regarding collateralization of deposits of public funds requires that securities be held by an agent (i.e. a trust company) of the bank, which may include the bank's trust department only if acceptable to both the bank and the Treasurer, pursuant to California Government Code Section 53656 and 53658. Under the provision of California Government Code Section 53652, banks are required to secure the deposits of public funds, including certificates of deposits, by: a) pledging government securities with a value of 110 percent of the principal and accrued interest; b) pledging first trust deed mortgage notes having a value 150 percent of the total agency deposit; or c) a letter of credit drawn on the Federal

- Home Loan Bank of 105 percent of the total agency deposit. Deposits must be secured at all times with eligible securities pursuant to Section 53651.
3. Collateralization of repurchase agreements must be at least 102 percent of the market value of principal and accrued interest. Collateral must consist of U.S. Treasury obligations or U.S. Agency obligations. Other specific requirements on repurchase agreements must be addressed in a master repurchase agreement by the City and the financial institution or broker/dealer.

### **XIII. MATURITY GOALS**

- A. Subject to the availability of funds short-term investments (maturity of one year or less) of the City shall not be less than 50 percent of the General Fund's annual operating budget of the City.
- B. The percentage of the City's portfolio that may be invested intermediate- term (maturity term over one year and not greater than five years) shall be determined by the Investment Officer based on cash requirements.
- C. Long-term investments (over five years to maturity date) shall be made only after review and approval by the City Council. Accordingly, no fixed percentage of the City's portfolio is designated for long-term investments.
- D. Additional and/or clarifying maturity guidelines shall be adopted from time to time as devised by the Investment Officer and reviewed by the Investment Committee.

### **XIV. POLICY REVIEW**

This Investment Policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity, yield and its relevance to current law and financial and economic trends. If changes are made, the City of Malibu's Investment Policy must be approved by the City Council.

### **XV. INVESTMENT PROCEDURES**

The Investment Officer shall establish written investment policy procedures for the day-to-day operations of the investment program consistent with this policy. The procedures should include reference to cash balancing, safekeeping, wire transfer agreements, collateral/depository agreements and the selection process for financial institutions and broker/dealers. The procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer.

### **XVI. INVESTMENT STRATEGY AND PERFORMANCE STANDARDS**

The City shall maintain a laddered portfolio of various maturity dates ranging from 30 days to 5 years and the investment strategy will generally be passive (buy and hold). Given this strategy, the basis used by the Treasurer to determine whether market yields are being achieved shall be to identify a comparable benchmark to the City's portfolio

investment duration. Given the liquidity objective and the portfolio duration, the 2-year U.S. Treasury Note shall be the City's selected benchmark.

### **GLOSSARY OF TERMS**

*Agencies* - Agencies of the Federal government set up to supply credit to various classes of institutions (e.g., S&Ls, small business firms, students, farmers, housing agencies, etc.)

*Asked* - The price at which securities are offered

*Bankers Acceptance (BA)* - A draft, bill or 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* - Price a prospective buyer is ready to pay

*Brokered CD* - A Certificate of Deposit account established at an insured bank by an agent or broker that represents the deposits of one or multiple investors

*Broker/Dealer* - Individual or firm acting as principal in securities transactions

*Callables* - Securities that the issuer has the right to redeem prior to maturity

*Certificates of Deposit (CD)* - A time deposit with a specific maturity evidenced by a certificate

*Collateral* - Securities pledged to secure repayment of a loan

*Comprehensive Annual Financial Report (CAFR)* - An official annual financial report. 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.

*Coupon* - a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value; and b) A certificate attached to a bond evidencing interest due on a payment date.

*Custody* - A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement, which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

*Debenture* - A bond secured only by the general credit of the issuer

*Delivery vs. Payment* - There are two methods of delivery of securities: Delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with a simultaneous exchange of money. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

*Derivatives* - a) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor; b) Financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities)

*Discount* - The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

*Discount Securities* - Non-interest bearing money market instruments that are issued a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills

*Diversification* - Dividing investment funds among a variety of securities offering independent returns

*Federal Credit Agencies* - Agencies of the Federal government set up to supply credit to various classes on institutions and individuals, e.g., S&Ls, small business firms, students, farmers, farm cooperatives and exporters

*Federal Deposit Insurance Corporation (FDIC)* - A federal agency that insures bank deposits. The basic FDIC insurance amount is \$250,000 per depositor, per bank, per ownership category. Deposits held in different ownership categories, such as single, joint, trust, and retirement, are separately insured, when the requirements for each ownership category are met, even if held at the same bank.

*Federal Funds Rate* - The rate of interest associated with borrowing a federal reserve bank's excess reserves. This rate is currently pegged by the Federal Reserve through open-market operations.

*Federal Home Loan Banks (FHLB)* – Government-sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to member commercial banks, draft institutions, credit unions and insurance companies. The mission of FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district bank.

*Intermediate Maturity*- Investment period greater than one year but less than five years and one day.

*Investment Officer* - The Investment Officer shall be the City Treasurer or, in his/her absence, the City Manager (see Section IX).

*Liquidity* - The ability to turn an asset into cash. The ability to buy or sell an asset quickly and in



large volume without substantially affecting the asset's price.

*Long-Term Maturity*- Investment period greater than five years.

*Market Value* - The price at which a security is trading, usually the liquidation value.

*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 repurchase agreement will often specify 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 (e.g. Treasury bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

*Offer* - The price at which someone who owns a security offers to sell it; also known as the asked price.

*Qualified Investment* - An investment instrument which is approved by this policy or pursuant to procedures set forth in this policy.

*Safety*- The ability of a security issuer to guarantee redemption of their security.

*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 Bonds* - Medium-term coupon bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

*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 ten years.

*Yield*- Percentage rate of interest received versus the purchase price of the instrument if held to maturity.