



City of La Quinta

CITY / SA / HA / FA MEETING DATE: June 2, 2015

ITEM TITLE: ADOPT RESOLUTION FOR FISCAL YEAR 2015/2016 INVESTMENT POLICY

AGENDA CATEGORY:

BUSINESS SESSION:

CONSENT CALENDAR: 11

STUDY SESSION:

PUBLIC HEARING:

RECOMMENDED ACTION:

Adopt a resolution approving the Investment Policy for Fiscal Year 2015/2016.

EXECUTIVE SUMMARY:

- California Government Code requires that the City Treasurer submit an annual statement of investment policy.
- The City's Investment Advisory Board (IAB) has completed its annual review of the current Investment Policy and has identified minor items that should be updated.
- The IAB is not recommending any major changes at this time.

FISCAL IMPACT:

None.

BACKGROUND/ANALYSIS:

The California Government Code imposes certain reporting requirements on State and local agencies, which includes the submittal of an annual statement of investment policy to the legislative body. As a result, in February 2015 the IAB began the process of updating the City's Policy to conform to this legislative requirement.

IAB recommended the Fiscal Year 2015/2016 Policy, which has been presented in both a final version (Attachment 1) and redlined version (Attachment 2). The redlined version shows pages that have changed from the prior year. Only minor updates are needed at this time as the IAB conducted a thorough review and revision of the policy

in June 2014. Recommendations include changes to the fiscal year being referenced, and an update of bond trustee information (the City refinanced a number of bonds over the past two years so the policy has been updated to reflect these changes).

It is City policy to invest all public funds in a manner which will provide a diversified portfolio with maximum security with the highest investment return in conformity with all State and local statutes, while meeting daily cash flow demands. This policy applies to all cash and investments of the City, Successor Agency to the La Quinta Redevelopment Agency, La Quinta Housing Authority and the La Quinta Financing Authority. The primary objectives of investment activity, in order of priority, are:

- safety of principal;
- liquidity to meet all obligations and requirements that may be reasonably anticipated; and
- a risk-based market rate of return, meaning the return on an investment is less important than the safety and liquidity. The portfolio's rates of return will be influenced by actions of the Federal Reserve Board, the market place and overall economic perceptions and conditions. The City's buy and hold policy protects the yield of securities during the holding period because the securities' yields are fixed at the time of purchase.

Authority to manage the City's investment portfolio is specified in Section 3.08.010 of the City's Municipal Code. Management responsibility for the investment program is delegated to the City Treasurer, who establishes and implements written procedures for its operation, consistent with the investment policy. The Treasurer is also required to establish and implement a system of internal controls to maintain the safety of the portfolio. The internal control system ensures the timely preparation and accurate reporting of the portfolio financial information. As part of the annual audit of the City's financial statements, the independent auditor reviews the adequacy of those controls and advises the City if weaknesses are found.

ALTERNATIVES:

Modifications to the Investment Policy may be identified and referred back to the IAB.

Report prepared by: Rita Conrad, Finance Director/Treasurer

Report approved for submission by: Frank J. Spevacek, City Manager

Attachments: 1. Investment Policy for Fiscal Year 2015/2016
 2. Redlined version of Fiscal Year 2015/2016 Investment Policy

RESOLUTION NO. 2015-

**A RESOLUTION OF THE CITY COUNCIL OF THE
CITY OF LA QUINTA APPROVING AND ADOPTING
THE AMENDED INVESTMENT POLICY FOR FISCAL
YEAR 2015/2016**

WHEREAS, the general purpose of the Investment Policy is to provide the rules and standards users must follow in investing funds of the City of La Quinta; and

WHEREAS, the primary objectives, in order of priority, of the City of La Quinta's investment activity shall be:

Safety of principal is the foremost objective of the investment program. Investments of the City of La Quinta shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

The investment portfolio shall be designed with the objective of attaining a market rate of return or yield throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs; and

WHEREAS, authority to manage the City of La Quinta's investment portfolio is derived from the City's municipal code, management responsibility for the investment program is delegated to the City Treasurer, who shall establish and implement written procedures for the operation of the City's investment program consistent with the Investment Policy for Fiscal Year 2015/2016; and

WHEREAS, the Investment Policy will be adopted before the end of June of each year and amended as considered necessary.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of La Quinta to adopt the Fiscal Year Investment Policy (Exhibit A).

PASSED, APPROVED and ADOPTED at a regular meeting of the La Quinta City Council, held on this 2ND day of June, 2015 by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

LINDA EVANS, Mayor
City of La Quinta, California

ATTEST:

SUSAN MAYSELS, City Clerk
City of La Quinta, California

(CITY SEAL)

APPROVED AS TO FORM:

WILLIAM H. IHRKE, City Attorney
City of La Quinta, California

Exhibit A

(TO BE ATTACHED)

2015/2016

INVESTMENT POLICY



La Quinta

— GEM of the DESERT —

CITY OF LA QUINTA

**CITY OF LA QUINTA
Investment Policy
Fiscal Year 2015/2016**

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CITY OF LA QUINTA
Investment Policy
Fiscal Year 2015/2016

Executive Summary

The general purpose of this Investment Policy is to provide the rules and standards that must be followed in administering the City of La Quinta's deposits and investments.

The City's Investment Policy conforms to all state and local statutes and applies to all deposits and investments of the City of La Quinta (the "City").

It is the City's policy to deposit and invest public funds in a manner that shall provide:

- ▶ Safety of principal;
- ▶ Liquidity to meet all of the City's obligations and requirements that may be reasonably anticipated; and
- ▶ A risk-based market rate of return.

It is the City's policy to hold securities and other investments until maturity. This buy-and-hold policy shall not prevent the sale of a security to minimize loss of principal when an issuer or backer suffers declining credit worthiness or when the liquidity needs of the portfolio require that a security be sold.

Authority to manage the City's investment portfolio is derived from the City Municipal Code. Management responsibility for the investment program is delegated to the City Treasurer, who shall establish and implement written procedures for the operation of the City's investment program consistent with the Investment Policy. The Treasurer shall establish and implement a system of internal controls to accomplish the following objectives:

- ▶ Safeguard assets;
- ▶ Orderly and efficiently conduct its business, including adherence to all City management policies;
- ▶ Prevent or detect errors and fraud;
- ▶ Accurately complete all accounting records; and
- ▶ Timely prepare all reliable financial information.

The System of Internal Controls developed by the City Treasurer shall be reviewed annually by the independent auditors in connection with the annual audit of the City's financial statements.

The City Manager, City Treasurer and city employees involved in the City's banking and investment process shall conduct the City's business in an ethical manner and refrain from any activity or relationship that may be, or have the appearance of, a conflict of interest.

The City Treasurer maintains a listing of financial institutions which are approved for investment purposes. All Broker/Dealers and financial institutions that provide investment services will be subject to City Council approval.

The Treasurer will be permitted to invest only in the permissible deposits and investments described in Section X and Appendix A up to the specified maximum allowable percentages and/or dollar limitations and, where applicable, through the bid process requirements. Permissible deposits and investments include, in general:

- ▶ FDIC-Insured Checking, Savings, and Sweep Accounts;
- ▶ Collateralized Bank Deposits;

- ▶ Certificates of Deposit;
- ▶ Negotiable Certificates of Deposit;
- ▶ U.S. Government Agency Securities and Federal Government Securities;
- ▶ Prime Commercial Paper;
- ▶ Local Agency Investment Fund (LAIF);
- ▶ Money Market Mutual Funds;
- ▶ Corporate Notes; and
- ▶ Professionally Managed Accounts.

The City's deposits and investments are generally limited to three years' maximum maturity. However, the projected amount of funds not expected to be disbursed within five years may be invested in notes and bonds maturing between three and five years. Additionally, funds may be invested for up to ten (10) years as further discussed in Section V.

The City's Investment Policy does not specify a single benchmark as a goal or target yield for a rate of return on its investment portfolio. As a basis for comparison only, the Treasurer's monthly report will display the rates of return on the three-month Bill, six-month Bill, and the one and two-year U.S. Treasury Note, comparable-period rates for commercial paper, and the yield for the State Treasurer's Local Agency Investment Fund (LAIF).

The Investment Policy shall be adopted by resolution of the La Quinta City Council on an annual basis. The Investment Policy will be adopted before the end of June of each year.

This Executive Summary is only an overview of the City's Investment Policy. Reading this summary does not constitute a complete review, which can only be accomplished by reviewing all of the pages herein.

I GENERAL PURPOSE

The general purpose of this document is to provide the rules and standards that must be followed in administering the City of La Quinta's deposits and investments.

II INVESTMENT POLICY

It is the policy of the City of La Quinta to deposit and invest public funds in a manner that shall provide:

- ▶ Safety of principal;
- ▶ Liquidity to meet all of the City's obligations and requirements that may be reasonably anticipated; and
- ▶ A risk-based market rate of return.

The Investment Policy conforms to all State and local statutes governing the investment of public funds and sets forth the permissible deposits and investments of the City's funds and the limitations thereon.

III SCOPE

Except as further detailed in Section XVII, this Investment Policy applies to all deposits and investments of the City of La Quinta, Successor Agency to the City of La Quinta Redevelopment Agency and the City of La Quinta Financing and Housing Authorities (hereafter referred to in this document as the "City"). These funds are reported in the City's Comprehensive Annual Financial Report (CAFR) and include all funds within the following fund types:

- ▶ General
- ▶ Special Revenue
- ▶ Capital Projects
- ▶ Debt Service
- ▶ Enterprise
- ▶ Internal Service
- ▶ Trust and Agency
- ▶ Any new fund types and fund(s) that may be created.

IV OBJECTIVES

The objectives of the City's investment activity, in order of priority and importance, are:

1. Safety of Principal

Safety of principal is the foremost objective of the City's investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of principal of the overall portfolio in accordance with the permissible deposits and investments.

The City shall endeavor to preserve its investment principal by making only permissible deposits and investments, undertaken in a controlled manner to minimize the possibility of loss or misappropriation through malfeasance or otherwise. Investments not backed by the full faith and credit of the United States Government shall be diversified by allocating assets between different types of permissible investments, maturities, and issuers as a means to mitigate credit risk and interest rate risk.

- a. Credit Risk is the risk of loss from the failure of the security issuer or backer. Credit risk may be mitigated by:
 - ▶ Limiting investments to investment grade securities as permitted in Section X;
 - ▶ Diversifying the issuers of the securities in the investment portfolio so that potential losses due to issuer failure or individual securities downgrades may be minimized.

- b. Interest Rate Risk is the risk that market values of securities in the portfolio will decline due to changes in general interest rates. Interest rate risk may be mitigated by:
 - ▶ Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; and
 - ▶ Investing operating funds primarily in shorter-term securities.

- c. Liquidity Risk is the risk that a security cannot be liquidated because of its unique features or structure or because it is thinly traded. Liquidity risk is not a material issue for the City's portfolio because of the permissible deposits and investments (see Section X) and because the City maintains a buy-and-hold policy and holds securities and other investments to maturity. A discussion of the City's investment process and risk is presented in Appendix I.

2. Provide Liquidity

The investment portfolio shall remain sufficiently liquid to meet all of the City's cash needs that may be reasonably anticipated. This is accomplished by structuring the portfolio so that sufficient liquid funds are available to meet anticipated demands. Furthermore, since all possible cash needs cannot be anticipated the portfolio should be diversified and consist of securities with active secondary or resale markets.

The City's policy is to hold securities and other investments to maturity. Accordingly, securities shall not be sold prior to maturity with the following exceptions:

- ▶ A security with declining credit quality can be sold early to minimize loss of principal;
- ▶ Unanticipated liquidity needs of the portfolio require that one or more securities be sold.

3. Yield a Risk-Based Market Rate Of Return

The City's investment portfolio shall be structured with the objective of yielding a risk-based market rate of return throughout budgetary and economic cycles. Return on investment is less important than the safety and liquidity objectives described above.

The City's Investment Policy does not specify a single benchmark as a goal or target yield for a rate of return on its investment portfolio. The portfolio's rates of return will be influenced by several factors, including actions by the Federal Reserve Board, the marketplace, and overall economic perceptions and conditions. These factors will not

affect yield during the securities' holding period because the City's buy-and-hold policy fixes the securities' yield at the time of purchase.

As a basis for comparison only, the Treasurer's monthly reports will display the rates of return on the three-month Bill, six-month Bill, and one and two-year U.S. Treasury Note, comparable-period rates for commercial paper, and the yield for the State Treasurer's Local Agency Investment Fund (LAIF). The Treasurer may use these or any other published rates of return that the Treasurer deems appropriate for comparison to the return on the City's investment portfolio.

V MAXIMUM MATURITIES

It is the City's policy to hold securities and other investments until maturity, thus avoiding the risk of market value fluctuations with overall market interest rates. This buy-and-hold policy shall not prevent the sale of a security to minimize loss of principal when an issuer or backer suffers declining credit worthiness or when the liquidity needs of the City require that a security be sold.

The buy-and-hold policy requires that the City's investment portfolio be structured so that sufficient liquid funds are available from maturing investments and other sources to meet all reasonably-anticipated cash needs. To meet anticipated cash needs, it is essential that the Treasurer have reliable, diligently prepared cash flow projections.

Annually, the Treasurer shall project the amount of funds not expected to be disbursed within ten years. For FY2015/2016, the amount of such funds is projected to be \$20 million. Funds up to that amount may be invested in U.S. Treasury notes and bonds, Local Agency Obligations, and California Local Agency Obligations maturing between 3 and 10 years. For all other funds, investments are limited to five years maximum maturity.

VI PRUDENCE

The City shall follow the Uniform Prudent Investor Act as adopted by the State of California in Probate Code Sections 16045 through 16054.

Section 16053 sets forth the terms of a prudent person which are as follows: "Investments shall be made with judgment and care - under circumstances then prevailing - which persons of prudence, discretion, and intelligence exercise in the professional 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."

VII AUTHORITY

Authority to manage the City's investment portfolio is derived from section 3.08 of the City's Municipal Code. Management responsibility for the investment program is delegated to the City Treasurer for a period of one year pursuant to the City Council's annual adoption of the Investment Policy.

The City Treasurer shall establish written procedures for the operation of the investment program consistent with the Investment Policy. Procedures should include reference to safekeeping, wire transfer agreements, banking service contracts, and collateral/depository agreements. Such 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 Investment Policy and the procedures established by the City Treasurer. 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 Manager or his/her designee shall acknowledge in writing all purchases and sales of investments prior to their execution by the City Treasurer.

VIII ETHICS AND CONFLICTS OF INTEREST

The City Manager, City Treasurer and city employees involved in the City's banking and investment process shall conduct the City's business in an ethical manner and refrain from any activity or relationship that may be, or have the appearance of, a conflict of interest. Any questionable activity or relationship shall be reported immediately and in compliance with the procedures set forth in Section 1.40 – Conflicts of Interest and Acceptance of Gifts and other Gratuities of the City of La Quinta Personnel Manual. Reporting must be made in accordance with the personnel policies of the City and, until resolved, the officer or employee shall refrain from participating in the City's business related to the matter.

The City Manager, City Treasurer and City employees may conduct personal business with banks, brokers, and other financial institutions that are authorized to conduct business with the City provided that the terms of the activity to the account holder with the City are the same as those that are available to the public in general.

IX AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The City Treasurer maintains a listing of financial institutions which are approved for direct investment purposes. In addition a list will also be maintained of approved broker/dealers selected by credit worthiness.

1. **Broker/Dealers** who desire to become bidders for direct investment transactions must supply the City with the following:
 - ▶ Current audited financial statements;
 - ▶ Proof of Financial Industry Regulatory Authority (FINRA) Certification;
 - ▶ Trading resolution;
 - ▶ Resume of Financial broker; and
 - ▶ Completion of the City of La Quinta Broker/Dealer questionnaire (see Appendix F) which contains a certification of having read the City's Investment Policy.

The City Treasurer shall evaluate the documentation submitted by the broker/dealer and independently verify existing reports on file for any firm and individual conducting investment related business.

The City Treasurer will also contact the following agencies during the verification process:

- ▶ Financial Industry Regulatory Authority (FINRA) Public Disclosure Report File (1-800-289-9999).
- ▶ State of California Department of Corporations (1-916-445-3062).

The City Treasurer maintains a listing of financial institutions which are approved for investment purposes. All Broker/Dealers and financial institutions that provide investment services will be subject to City Council approval.

Each securities dealer shall provide monthly and quarterly reports filed pursuant to U.S. Treasury Department regulations. Each mutual fund shall provide a prospectus and statement of additional information.

2. **Financial Institutions** will be required to meet the following criteria in order to receive City funds for deposit or investment (see Appendix E, "Listing of Approved Financial Institutions"):

- a. Insurance - Public Funds shall be deposited only in financial institutions having accounts insured by the Federal Deposit Insurance Corporation (FDIC).
- b. Collateral - The amount of the City's deposits or investments not insured by the FDIC—shall be collateralized by securities with market values of 110%, or by mortgages with market values 150%, of the amount of invested funds plus unpaid interest earnings.
- c. Disclosure - Each financial institution maintaining invested funds in excess of the FDIC insured amount shall furnish the City a copy of the most recent Call Report.

The City shall not invest in excess of the FDIC insured amount in banking institutions which do not disclose to the city a current listing of securities pledged for collateralization in public monies.

X PERMISSIBLE DEPOSITS AND INVESTMENTS

Permissible deposits and investments are summarized below. A more comprehensive list is included in Appendix A.

Permissible Investments and Limitations (See Appendix A for Additional Information)	Maximum Allocation	Maximum Maturity	Restrictions
Checking & Savings Accounts FDIC Insured & Sweep Accounts	85% of Portfolio	Current / On Demand	Sweep Account: U.S. Treasuries and/or GSE's
Interest bearing active bank deposits – non FDIC insured collateralized by 110% of eligible securities	60% of Portfolio	Current / On Demand	\$40 million per bank
Certificates of Deposit - FDIC Insured	60% of Portfolio	5 Years	<= \$250,000, including interest per institution
Negotiable Certificates of Deposit – FDIC Insured	30% of Portfolio	5 Years	<= \$250,000 including interest per institution
U.S. Treasury Bills, Notes and Bonds, and Government National Mortgage Association (GNMA) Securities	100% of Portfolio	5 Years	<=\$20,000,000 maturing 3-10 Yrs.
Local Agency Bonds / California Local Agency Obligations	30% of Portfolio	10 Years	<=\$20,000,000 maturing 3-10 Yrs. Long term "A, A2, A" or better
U.S. Government Agency Securities and Federal Government Securities (except collateralized mortgage obligations (CMO's) or structured notes which contain embedded rate options):			\$10 million per purchase

Permissible Investments and Limitations (See Appendix A for Additional Information)	Maximum Allocation	Maximum Maturity	Restrictions
- Federal National Mortgage Association (FNMA) - Federal Home Loan Bank Notes & Bonds (FHLB) - Federal Farm Credit Bank (FFCB) - Federal Home Loan Mortgage Corporation (FHLMC)	\$20,000,000 \$25,000,000 \$30,000,000 \$20,000,000	5 Years 5 Years 5 Years 5 years	30% of Portfolio
Prime Commercial Paper including Temporary Liquidity Guarantee Program (TLGP)	15% of Portfolio	90 Days	\$5,000,000 per issuer maximum
Local Agency Investment Fund (LAIF)	30% of Portfolio	Current / On Demand	\$50 million per account
Money market mutual funds regulated by the SEC that consist only of US Treasury Securities or GSE's and maintain a par value of \$1 per share	20% of Portfolio	Current / On Demand	Maintain \$1 per share par value
Corporate Notes	10% of Portfolio	3 Years	\$5,000,000 max per issuer AA rated or better
Corporate Notes - Temporary Liquidity Guarantee Program (TLGP)	20% of Portfolio	3 Years	\$10,000,000 max per issuer, AA rated or better
Professionally Managed Account	10% of Portfolio	3 Years	Requires City Council-Approved RFP

Long-Term Scale

S&P A1 AAA, AA+, AA, AA-, A+, A
Moody's P1 Aaa, Aa1, Aa2, Aa3, A1, A2
Fitch AAA, AA+, AA, AA-, A+, A

Checking, Savings, and Sweep Accounts – The City will only maintain checking, savings, and sweep accounts with FDIC insured financial institutions. As authorized by the City Council, a U.S. Treasury and/or U.S. Agency Securities Money Market Sweep Account with a \$50,000 target balance may be maintained in conjunction with the checking account.

In addition, the Treasurer may invest in an interest bearing active deposit account as approved in Government Code Section 53632. The deposit account must be collateralized with securities that are in accordance with Government Code Sections 53632.5(c). In addition, the market value of the collateralized securities must be maintained in accordance with 53652 (a), and be held by a custodian in accordance with the requirements of Government Code Section 53656. The proposition of the City's share of the deposit account shall be determined in accordance with Government Code Section 53658.

Certificates of Deposit - As authorized in Government Code Section 53649, Certificates of Deposit are fixed term investments which are required to be collateralized from 110% to 150% depending on the specific security pledged as collateral in accordance with Government Code Section 53652.

Collateralization will be required for Certificates of Deposits in excess of the FDIC insured amount. The type of collateral is limited to City authorized investments. Collateral will always be held by an independent third party from the institution that sells the Certificates of Deposit to the City. Evidence of compliance with State Collateralization policies must be supplied to the City and retained by the City Treasurer as follows:

- ▶ Certificates of Deposits Insured by the FDIC: The City Treasurer may waive collateralization of a deposit that is federally insured.
- ▶ Certificates of Deposit in excess of FDIC Limits: The amount not federally insured shall be 110% collateralized securities or 150% mortgages market value of that amount of invested funds plus unpaid interest earnings.

The City's Investment Policy limits the percentage of Certificates of Deposit to 60% of the portfolio.

Negotiable Certificates of Deposit - issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally- or state- licensed branch of a foreign bank. No more than 30% of the City's portfolio may be invested in negotiable CDs.

U.S. Treasury Bills, Notes, and Bonds and Government National Mortgage Associations (GNMA) securities – The City may invest in U.S. Treasury bills, notes, and bonds and GNMA securities directly issued and backed by the full faith and credit of the U.S. Government. The City's Investment Policy provides for investments in U.S. Treasury issues and GNMA's of 100% of the portfolio.

- ▶ The City's Investment Policy does not allow investments in state indebtedness.

Local Agency Bonds and California Local Agency Obligations – The City may invest in California local agency obligations pursuant to 56301(a) and 53301(e). 53601(a) pertains to investing in bonds issued by a local agency, department, board, agency or authority of the local agency. 53601(e) pertains to investing in bonds and other defined indebtedness of a local agency or department, board, agency or authority of the local agency within the State of California.

The City's Investment Policy limits investments in Local Agency Bonds and California Local Agency obligations to 30% of the portfolio with up to a ten year maximum maturity. In addition, the Agency obligations must be invested in the long term rating of A, A2, A or better by S&P, Moody's or Fitch.

In the case of an initial public offering, including refinancings, the Treasurer may purchase directly from the Bond Underwriter. In the case of secondary issues, the Treasurer will rely on the approved Broker/Dealers.

U.S. Government Agency Securities and Federal Government Securities – The City may invest in securities issued by U.S. Government instrumentalities and agencies (commonly referred to as government sponsored enterprises or GSE's). These securities are not backed by the full faith and credit of the U.S. Government. Publicly owned GSE's include Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Student Loan Marketing Association (SLMA). Non-publicly owned GSE's include the Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Federal Land Bank (FLB) and Federal Intermediate Credit Bank (FICB).

The City's Investment Policy allows investment only in securities of FNMA, FHLMC, FHLB and FFCB. For Fiscal Year 2015/2016, the maximum face amount per issuer is \$20 million for FNMA and FHLMC, \$25 million for FHLB and \$30 million for FFCB. In addition,

no more than 30% of the portfolio surplus may be invested in all GSE's combined with a maximum \$10 million face amount per purchase.

Prime Commercial Paper - As authorized in Government Code Section 53601(g), a portion of the City's portfolio may be invested in commercial paper of the highest rating (A1 or P1) as rated by Moody's or Standard and Poor's. There are a number of other qualifications regarding investments in commercial paper based on the financial strength of the corporation and the size of the investment. The City's Investment Policy permits investments in commercial paper with the following limitations:

- ▶ Maximum 15% of the portfolio.
- ▶ Maximum maturity of 90 days.
- ▶ Maximum of \$5 million per issuer.

These limitations are more restrictive than the State code which allows amounts of 25% of the total portfolio with maturities up to 270 days with no per-issuer limitations.

Local Agency Investment Fund (LAIF) - As authorized in Government Code Section 16429.1 and by LAIF procedures, local government agencies are each authorized to invest a maximum of \$50 million per account in this investment program administered by the California State Treasurer. The City Treasurer may not invest more than \$50 million per account in LAIF. The City's investment in LAIF is allowable as long as the average maturity of its investment portfolio does not exceed two years, unless specific approval is authorized by the City Council. The City limits investment to 30% of the portfolio.

Money Market Mutual Funds - As authorized in Government Code Section 53601(k), local agencies are authorized to invest in shares of beneficial interest issued by diversified management companies (mutual funds) in an amount not to exceed 20% of the agency's portfolio. There are a number of other qualifications and restrictions regarding allowable investments in corporate notes and shares of beneficial interest issued by mutual funds which include (1) attaining the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services, or (2) having an investment advisor registered with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations and with assets under management in excess of five hundred million dollars (\$500,000,000).

The City's Investment Policy only allows investments in mutual funds that are money market funds maintaining a par value of \$1 per share that invest in direct issues of the U.S. Treasury and/or US Agency Securities with an average maturity of their portfolio not exceeding 90 days and the City limits such investments to 20% of the portfolio.

Corporate Notes - As authorized in Government Code Section 53601 (j), local agencies may invest in corporate notes. The notes must be issued by corporations organized and operating in the United States or by depository institutions licensed by the United States or any other state and operating in the United States. The City's Investment Policy allows investment in corporate notes authorized by the Government Code with the following limitations:

- ▶ Maturities shall not exceed three years from date of purchase;
- ▶ Eligible notes shall be regularly quoted and traded in the marketplace;
- ▶ Eligible notes shall be rated "AA" or better; and
- ▶ The maximum aggregate investment shall not exceed \$5 million face amount for each issuer.

This is more restrictive than the State code allowed amounts of 30% of the total portfolio with maturities up to five years with no per-issuer limitations.

Professionally Managed Account(s) - The City Treasurer may place up to 10% of the portfolio with a professional portfolio management firm ("PPMF"). The PPMF will be approved by the City Council based upon the City Treasurer's recommendation pursuant to completion of a request for proposal (RFP) as outlined in Appendix G. The PPMF shall have:

- ▶ An established professional reputation for asset or investment management;
- ▶ Knowledge and working familiarity with State and Federal laws governing and restricting the investment of public funds;
- ▶ Substantial experience providing investment management services to local public agencies whose investment policies and portfolio size are similar to those of the City;
- ▶ Professional liability (errors and omissions) insurance and fidelity bonding in such amounts as are required by the City; and
- ▶ Registration with the Securities and Exchange Commission under the Investment Advisers Act of 1940.

Before engagement by the City and except as may be specifically waived or revised, the PPMF shall commit to adhere to the provisions of the City's Investment Policy with the following exceptions:

- ▶ The PPMF may be granted the discretion to purchase and sell investment securities in accordance with Appendix I of this Investment Policy;
- ▶ The PPMF is not required to adhere to the buy-and-hold policy of the City's Investment Policy; and
- ▶ The PPMF does not need City Manager or City Treasurer approval to make permissible investments as detailed in column 8 of Appendix H of this Investment Policy.

XI INVESTMENT POOLS

There are three (3) types of investment pools:

- ▶ State-run pools (e.g., LAIF);
- ▶ Pools that are operated by a political subdivision where allowed by law and the political subdivision is the trustee (e.g., County Pools); and
- ▶ Pools that are operated for profit by third parties.

The City's Investment Policy permits investment only in pools authorized in Section X.

XII PAYMENT AND CUSTODY

The City shall engage qualified third party custodians to act in a fiduciary capacity to maintain appropriate evidence of the City's ownership of securities and other eligible investments. Such custodians shall disburse funds, received from the City for a purchase, to the broker, dealer or seller only after receiving evidence that the City has legal, record ownership of the securities. Even though ownership is evidenced in book-entry form rather than by actual certificates, this

procedure is commonly accepted as the delivery versus payment (DVP) method for the transfer of securities.

XIII INTEREST EARNING DISTRIBUTION POLICY

Interest earnings are generated from pooled investments and specific investments. The following provisions apply to the calculation and distribution of interest earnings.

1. **Pooled Investments** - It is the general policy of the City to pool all available operating cash of the City of La Quinta, Successor Agency to the City of La Quinta Redevelopment Agency, La Quinta Financing Authority, and La Quinta Housing Authority, and to allocate interest earnings in the following order, as follows:
 - a. Payment to the General Fund of an amount equal to the total annual bank service charges as incurred by the general fund for all operating funds as included in the annual operating budget.
 - b. Payment to the General Fund of a management fee equal to 5% of the annual pooled cash fund investment earnings.
 - c. Payment to each fund of an amount based on the average computed daily cash balance included in the common portfolio for the earning period.
2. **Specific Investments** - Specific investments purchased by a fund shall incur all earnings and expenses to that particular fund.

XIV INTERNAL CONTROLS AND INDEPENDENT AUDITOR

The City Treasurer shall establish a system of internal controls to accomplish the following objectives:

- ▶ Safeguard assets;
- ▶ The orderly and efficient conduct of its business, including adherence to management policies;
- ▶ Prevention or detection of errors and fraud;
- ▶ The accuracy and completeness of accounting records; and
- ▶ Timely preparation of reliable financial information.

While no internal control system, however elaborate, can guarantee absolute assurance that the City's assets are safeguarded, it is the intent of the City's internal control to provide a reasonable assurance that management of the investment function meets the City's objectives.

The internal controls shall address the following:

- ▶ **Control of collusion**. Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
- ▶ **Separation of transaction authority from accounting and record keeping**. By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.

- ▶ Custodial safekeeping. Securities purchased from any bank or dealer including appropriate collateral (as defined by State Law) shall be placed with an independent third party for custodial safekeeping.
- ▶ Avoidance of physical delivery securities. Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
- ▶ Clear delegation of authority to subordinate staff members. Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities as outlined in the Segregation of Major Investment Responsibilities appendices.
- ▶ Written confirmation or telephone transactions for investments and wire transfers. Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions shall be supported by written communications or electronic confirmations and approved by the appropriate person. Written communications may be via fax if on letterhead and the safekeeping institution has a list of authorized signatures. Fax correspondence must be supported by evidence of verbal or written follow-up.
- ▶ Development of a wire transfer agreement with the City's bank and third party custodian. This agreement should outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.

The system of internal controls developed by the City, shall be reviewed annually by the independent auditor in connection with the annual audit of the City's Financial Statements. The independent auditor's letter on internal control over financial reporting and compliance as it pertains to cash and investments, if any, shall be directed to the City Manager who will direct the City Treasurer to provide a written response to the independent auditor's letter. The auditor's letter, as it pertains, to cash and investment activities and the City Treasurer's response shall be provided to the City's Investment Advisory Board for their consideration. Following the completion of each annual audit, the independent auditor shall meet with the Investment Advisory Board and discuss the auditing procedures performed and the review of internal controls for cash and investment activities. See Appendix D, "Segregation of Major Investment Responsibilities."

XV REPORTING STANDARDS

The City Treasurer shall submit a monthly Treasurers Report to the City Council and the Investment Advisory Board that includes all cash and investments under the authority of the Treasurer. The Treasurer's Report shall summarize cash and investment activity and changes in balances and include the following:

- ▶ A certification by the City Treasurer;
- ▶ A listing of purchases and sales/maturities of investments;
- ▶ Cash and Investments categorized by authorized investments, except for LAIF which will be provided quarterly and show yield and maturity;
- ▶ Comparison of month end actual holdings to Investment Policy limitations;
- ▶ Current year and prior year monthly history of cash and investments for trend analysis;
- ▶ Balance Sheet;

- ▶ Distribution of cash and investment balances by fund;
- ▶ A year to date historical cash flow analysis and projection for the next six months; and
- ▶ A two-year list of historical interest rates.

XVI FINANCIAL ASSETS AND INVESTMENT ACTIVITY NOT SUBJECT TO THIS POLICY

The City’s Investment Policy does not apply to the following:

- ▶ Cash and Investments raised from Conduit Debt Financing
- ▶ Funds held in trust in the City’s name in pension or other post-retirement benefit programs
- ▶ Cash and Investments held in lieu of retention by banks or other financial institutions for construction projects
- ▶ Short or long term loans made to other entities by the City or Agency
Short term (Due to/from) or long term (Advances from/to) obligations made either between the City and its funds or between the City and Agency

XVII INVESTMENT OF BOND PROCEEDS

The City’s Investment Policy shall govern bond proceeds and bond reserve fund investments. California Code Section 5922 (d) governs the investment of bond proceeds and reserve funds in accordance with bond indenture provisions which shall be structured in accordance with the City’s Investment Policy.

Arbitrage Requirement - The US Tax Reform Act of 1986 requires the City to perform arbitrage calculations as required and return excess earnings to the US Treasury from investments of proceeds of bond issues sold after the effective date of this law. These arbitrage calculations may be contracted with an outside source to provide the necessary technical assistance to comply with this regulation. Investable funds subject to the 1986 Tax Reform Act will be kept segregated from other funds and records will be kept in a fashion to facilitate the calculations.

The City’s investment position relative to the new arbitrage restrictions is to continue pursuing the maximum yield on applicable investments while ensuring the safety of capital and liquidity. It is the City's position to continue maximization of yield and to rebate excess earnings, if necessary.

XVIII INVESTMENT ADVISORY BOARD - CITY OF LA QUINTA

The Investment Advisory Board (IAB) is a standing board composed of five members from the public that are appointed by the City Council. Background information will be requested and potential candidates must agree to a background check and verification. On an annual basis, in conjunction with the Political Reform Act disclosure statutes, or at any time if a change in circumstances warrants, each board member will provide the City Council with a disclosure statement which identifies any matters that have a bearing on the appropriateness of that member’s service on the board. All board members shall report annually to the City Clerk on Form 700, Statement of Economic Interests, any activities, interests, or relationships that may be, or have the appearance of, a conflict of interest.

The IAB must meet at least quarterly, but usually meets monthly, to:

- ▶ Review at least annually the City's Investment Policy and recommend appropriate changes;
- ▶ Review monthly treasury report and note compliance with the Investment Policy and adequacy of cash and investments for anticipated obligations;
- ▶ Receive and consider other reports provided by the City Treasurer;
- ▶ Meet with the independent auditor after completion of the annual audit of the City's financial statements, and receive and consider the auditor's comments on auditing procedures, internal controls and findings for cash and investment activities; and
- ▶ Serve as a resource for the City Treasurer on matters such as proposed investments, internal controls, use or change of financial institutions, custodians, brokers and dealers.

The IAB will report to the City Council after each meeting either in person or through correspondence at a regular City Council meeting. See Appendix B: "Investment Advisory Board Provisions."

XIX INVESTMENT POLICY ADOPTION

The City's Investment Policy will be reviewed annually by the City's Investment Advisory Board and the City Treasurer. The Investment Advisory Board will forward the Investment Policy with any revisions to the City Manager and City Attorney for their review and comment. A joint meeting will be held with the Investment Advisory Board, City Manager, City Attorney, and City Treasurer to review the Investment Policy and any comments prior to submission to the City Council for their consideration. The Investment Policy shall be adopted by resolution of the City Council annually before the end of June of each year.

CITY OF LA QUINTA
SUMMARY OF PERMISSIBLE DEPOSITS AND INVESTMENTS

Appendix A

The City Treasurer will be permitted to invest in the following types of investments subject to the maximum percentage allocation limits and bid process requirements. All maturities must be less than or equal to the maximum maturity allowed.

Bid Process	Permissible Deposits and Investments	City Maximum Allocation (Footnote 1)	State Maximum Allocation	City Restrictions	City Maximum Maturity	Credit Quality
			Surplus Funds			
1	Checking & Savings Accounts (FDIC Insured) & Sweep Accounts	85% Portfolio	100% Portfolio	Sweep Account: U.S. Treasuries and/or GSE's	Current/On Demand	FDIC Insured
2	Interest bearing active bank deposits – non FDIC insured collateralized by 110% of eligible securities	60% Portfolio	100% Portfolio	\$40,000,000 per bank	Current /on Demand	Non-FDIC Insured
2	Certificate of Deposit	60% Portfolio	100% Portfolio	<= \$250,000 including interest per institution	5 years	FDIC Insured
2	Negotiable Certificate of Deposit	30% Portfolio	100% Portfolio	<= \$250,000 including interest per institution	5 years	FDIC Insured
3	U.S. Treasury Bills, Notes and Bonds, and Government National Mortgage Association (GNMA) securities	100% Portfolio	100% Portfolio	<=\$30,000,000 maturing 3-5 Yrs.	3 years	
3	U.S. Government Agency Securities and Federal Government Securities (except collateralized mortgage obligations (CMO's) or structured notes which contain embedded rate options): - Federal National Mortgage Association (FNMA) - Federal Home Loan Bank Notes & Bonds (FHLB) - Federal Farm Credit Bank (FFCB) - Federal Home Loan Mortgage Corporation (FHLMC)	\$20,000,000 \$25,000,000 \$30,000,000 \$20,000,000	100% Portfolio		5 years 5 years 5 years 5 years	
3	Prime Commercial Paper including Temporary Liquidity Guarantee Program (TLGP)	15% Portfolio	25% Portfolio 270 Days	\$5,000,000 per issuer maximum	90 days	S&P (A-1) Moody's (P-1)
4	Local Agency Investment Fund (LAIF)	\$50,000,000	30% Portfolio	\$50,000,000 per account	Current/On Demand	
5	Money market mutual funds regulated by the SEC that consist only of US Treasury Securities or GSE's and maintain a par value of \$1 per share	20% Portfolio	20% Portfolio	Maintain \$1 per share par value	Current / On Demand	Rated AAA by 2 of 3 agencies; assets>=\$500 million; SEC reg'd >5 Yrs.
6	Corporate Notes	10% Portfolio	30% Portfolio	\$5,000,000 max per issuer	3 years	S & P rated AA or better
6	Corporate Notes - Temporary Liquidity Guarantee Program (TLGP)	20% Portfolio	30% Portfolio	\$10,000,000 max per issuer	3 years	S&P rated AA or better.
7	Professionally Managed Account	10% Portfolio	100% Portfolio	Requires Approved RFP	3 years	SEC Reg'd; E&O, Fidelity Insured
8	Local Agency Bonds/California Agency Obligations	100%	30%	<=^\$30,000,000	10 years	At least long term "A, A2, A" rating

Bid Process

- 1 Periodically conduct a bid process at least every four (4) years or sooner if considered necessary for banking and/or custodian services. Since banking services and custodian services are so closely related it is anticipated that the bid process would include the scope of both services.
- 2 The financial institutions can be either state or federally chartered and must be insured by the Federal Deposit Insurance Corporation (FDIC).
- 3 At least two bids from broker/dealers that qualify under Securities and Exchange Commission Rule 15C3-1 listed on the "Listing of Approved Financial Institutions" in the appendices.
- 4 City Council Approval.
- 5 Money Market mutual funds must comply with Government Code Section 53601(k). The fund must be registered by the SEC and must include marking the portfolio to market daily.
- 6 At least two bids from broker/dealers that qualify under Securities and Exchange Commission Rule 15C3-1 listed on the "Listing of Approved Financial Institutions" in the appendices.
- 7 The professional portfolio management firm (PPMF) will be approved by the City Council based upon the City Treasurer's recommendation pursuant to completion of a request for proposal (RFP) as outlined in the appendices. See also Footnote 2.
- 8 Initial offerings the Treasurer may purchase directly from Bond Underwriter, secondary issues follow bid process 3.

Footnote 1 The City has imposed a maximum limitation based upon the total portfolio of investments. Total portfolio investments are all cash and investments, including bond proceeds. In addition, the State has adopted limits on the investment of surplus funds.

Footnote 2 The City may engage the services of a professional portfolio management firm which may invest in Bankers Acceptances, Mutual Funds, and Asset Backed Securities not otherwise permissible under the City's Investment Policy.

Unauthorized Investments

The City Treasurer will not be permitted to invest in the following types of investments (see Footnote 2 and "State Code Permitted Deposits And Investments Not Authorized By The City's Investment Policy", below).

- Repurchase Agreements
- Bankers Acceptances
- Mutual Funds other than money market mutual funds
- Preferred and Common Stock
- State Indebtedness
- Asset Backed Securities
- Reverse Repurchase Agreements
- Derivatives

The above list of unauthorized deposits and investments is not meant to be all-inclusive. Only those deposits and investments listed in the "Permissible Deposits and Investments" section of the Policy are permissible.

City of La Quinta Municipal Code
Chapter 2.70

INVESTMENT ADVISORY BOARD PROVISIONS

Sections:

- 2.70.010** **General Rules Regarding Appointment.**
- 2.70.020** **Board Meetings.**
- 2.70.030** **Board Functions.**

2.70.010 **General rules regarding appointment**

A. Except as set out below, see Chapter 2.06 for General Provisions.

B. The Investment Advisory Board (the "board") is a standing board composed of five (5) members from the public that are appointed by city council.

C. Applicants for the board should have a background in finance, preferably with knowledge and/or experience in markets, controls and accounting for securities. Background information will be requested and potential candidates must agree to a background check and verification.

D. On an annual basis, in conjunction with the Political Reform Act disclosure statutes, or at any time if a change in circumstances warrants, each board member will provide the City Council with a disclosure statement which identifies any matters that have a bearing on the appropriateness of that member's service on the board. Such matters may include, but are not limited to, changes in employment, changes in residence, or changes in clients.

E. To promote continuity, the expiration of the terms of the members of the board shall be staggered. The term of service is three years, with one or two terms expiring each year.

2.70.020 **Board meetings.**

The Board usually will meet monthly, but this schedule may be extended to quarterly meetings upon the concurrence of the Board and the City Council. The specific meeting dates will be determined by the Board Members and meetings may be called for on an as needed basis.

2.70.030 **Board functions.**

A. The principal functions of the Board are: (1) review at least annually the City's Investment Policy and recommend appropriate changes; (2) review monthly Treasury Report and note compliance with the Investment Policy and adequacy of cash and investments for anticipated obligations; (3) receive and consider other reports provided by the City Treasurer; (4) meet with the independent auditor after completion of the annual audit of the City's financial statements, and receive and consider the auditor's comments on auditing procedures, internal controls, and findings for cash and investment activities, and; (5) serve as a resource for the City Treasurer on matters such as proposed investments, internal controls, use or change of financial institutions, custodians, brokers and dealers.

B. The Board will report to the City Council after each meeting either in person or through correspondence at a regular City Council meeting.

**City of La Quinta Municipal Code
Chapter 3.08**

INVESTMENT OF MONEYS AND FUNDS

Sections:

3.08.010 Investment of city moneys and deposit of securities.

3.08.020 Authorized investments.

3.08.030 Sales of securities.

3.08.040 City bonds.

3.08.050 Reports.

3.08.060 Deposits of securities.

3.08.070 Trust fund administration.

3.08.010 Investment of city moneys and deposit of securities.

Pursuant to, and in accordance with, and to the extent allowed by, Sections 53607 and 53608 of the Government Code, the authority to invest and reinvest moneys of the city, to sell or exchange securities, and to deposit them and provide for their safekeeping, is delegated to the city treasurer. (Ord. 2 § 1 (part), 1982)

3.08.020 Authorized investments.

Pursuant to the delegation of authority in Section 3.08.010, the city treasurer is authorized to purchase, at their original sale or after they have been issued, securities which are permissible investments under any provision of state law relating to the investing of general city funds, including but not limited to Sections 53601 and 53635 of the Government Code, as said sections now read or may hereafter be amended, from moneys in his custody which are not required for the immediate necessities of the city and as he may deem wise and expedient, and to sell or exchange for other eligible securities and reinvest the proceeds of the securities so purchased. (Ord. 2 § 1 (part), 1982)

3.08.030 Sales of Securities.

From time to time the city treasurer shall sell the securities in which city moneys have been invested pursuant to this chapter, so that the proceeds may, as appropriate, be applied to the purchase for which the original purchase money may have been designated or placed in the city treasury. (Ord.2 § 1 (part),

3.08.040 City bonds.

Bonds issued by the city and purchased pursuant to this chapter may be cancelled either in satisfaction of sinking fund obligations or otherwise if proper and appropriate; provided, however, that the bonds may be held uncanceled and while so held may be resold. (Ord. 2 § 1 (part), 1982)

3.08.050 Reports.

The city treasurer shall make a monthly report to the city council of all investments made pursuant to the authority delegated in this chapter. (Ord. 2 § 1 (part), 1982)

3.08.060 Deposits of securities.

Pursuant to the delegation of authority in Section 3.08.010, the city treasurer is authorized to deposit for safekeeping, the securities in which city moneys have been invested pursuant to this chapter, in any institution or depository authorized by the terms of any state law, including but not limited to Section 53608 of the Government Code as it now reads or may hereafter be amended. In accordance with said section, the city treasurer shall take from the institution or depository a receipt for the securities so deposited and shall not be responsible for the securities delivered to and receipted for by the institution or depository until they are withdrawn therefrom by the city treasurer. (Ord. 2 § 1 (part), 1982)

3.08.070 Trust fund administration.

Any departmental trust fund established by the city council pursuant to Section 36523 of the Government Code shall be administered by the city treasurer in accordance with Section 36523 and 26524 of the Government code and any other applicable provisions of law. (Ord. 2 § 1 (part), 1982)

SEGREGATION OF MAJOR INVESTMENT RESPONSIBILITIES

<u>Function</u>	<u>Responsible Parties</u>
Develop and Recommend Modifications to City's Formal Investment Policy	Investment Advisory Board and City Treasurer
Review City's Investment Policy and Recommend City Council Action	City Manager and City Attorney
Adopt Formal Investment Policy	City Council
Implement Formal Investment Policy	City Treasurer
Review Financial Institutions & Select Investments	City Treasurer
Acknowledge Investment Selections	City Manager or his/her designee
Execute Investment transactions	City Treasurer or City Manager
Confirm Wires (if applicable)	Accounting Manager or Financial Services Assistant
Record Investment Transactions in City's Accounting Records	Accounting Manager or Financial Services Assistant
Investment Verification (match broker confirmation to City investment records)	City Treasurer and Financial Services Assistant
Reconcile Investment Records to Accounting Records and Bank Statements	Financial Services Assistant
Reconcile Investment Records to Treasurers Report of Investments	Accounting Manager
Security of Investments at City	Accounting Manager or Senior Secretary
Security of Investments outside City	Third Party Custodian
Review Internal Control Procedures	External Auditor

LISTING OF APPROVED FINANCIAL INSTITUTIONS

- 1. Banking Services
 - Wells Fargo Bank, Government Services, Los Angeles, CA (Banking Services)
 - Rabobank N.A., Government Banking Group, Roseville, CA (Collateralized Bank Deposits)
- 2. Custodian Services
 - Bank of New York/Mellon
- 3. Deferred Compensation
 - International City/County Management Association Retirement Corporation
- 4. Broker/Dealer Services
 - Banc of America Securities/Merrill Lynch
 - Morgan Stanley
 - CitiGroup
 - First Empire Securities
- 5. Government Pool
 - State of California Local Agency Investment Fund
- 6. Bond Trustees
 - 1996 Lease Revenue Bonds – US Bank
 - 1998 RDA Project Area 1&2 – US Bank
 - 2001 RDA Project Area 1 – US Bank
 - 2002 RDA Project Area 1 – US Bank
 - 2003 RDA Project Area 1 – US Bank
 - 2004 Local Agency Rev – US Bank
 - 2011 RDA Project Area 2 – US Bank
 - 2011 Fin Auth Housing 1&2 – US Bank
 - 2013 Successor Agency – US Bank
 - Assessment Districts – US Bank

No Changes to this listing may be made without City Council approval

BROKER/DEALER QUESTIONNAIRE AND CERTIFICATION

1. Name of Firm: _____
2. Address: _____
3. Telephone: (___) _____ (___) _____
4. Broker's Representative to the City (attach resume):
Name: _____
Title: _____
Telephone: (___) _____
5. Manager/Partner-in-charge (attach resume):
Name: _____
Title: _____
Telephone: _____
6. List all personnel who will be trading with or quoting securities to City employees (attach resume)
Name: _____
Title: _____
Telephone: (___) _____ (___) _____
7. Which of the above personnel have read the City's Investment Policy?

8. Which instruments are offered regularly by your local office? (Must equal 100%)

_____ % U.S. Treasuries	_____ % Repos
_____ % BA's	_____ % Reverse Repos
_____ % Commercial Paper	_____ % CMO's
_____ % CD's	_____ % Derivatives
_____ % Mutual Funds	_____ % Stocks/Equities
_____ % Agencies (specify):	_____ % Other (specify):
_____	_____
_____	_____
_____	_____
_____	_____
9. References -- Please identify your most directly comparable public sector clients in our geographical area.

Entity _____	Entity _____
Contact _____	Contact _____

Telephone () _____
Client Since _____

Telephone () _____
Client Since _____

10. Have any of your clients ever sustained a loss on a securities transaction arising from a misunderstanding or misrepresentation of the risk characteristics of the instrument? If so, explain.

11. Has your firm or your local office ever been subject to a regulatory or state/ federal agency investigation for alleged improper, fraudulent, disreputable or unfair activities related to the sale of securities? Have any of your employees been so investigated? If so, explain.

12. Has a client ever claimed in writing that you were responsible for an investment loss? Yes _____ No _____ If yes, please provide action taken _____

Has a client ever claimed in writing that your firm was responsible for an investment loss? Yes _____ No _____ If yes, please provide action taken _____

Do you have any current or pending complaints that are unreported to FINRA? Yes _____ No _____ If yes, please provide action taken _____

Does your firm have any current, or pending complaints that are unreported to FINRA? Yes _____ No _____ If yes, please provide action taken _____

13. Explain your clearing and safekeeping procedures, custody and delivery process.

Who audits these fiduciary responsibilities? _____

Latest Audit Report Date _____

14. How many and what percentage of your transactions failed?
 Last month? _____% \$ _____
 Last year? _____% \$ _____
15. Describe the method your firm would use to establish capital trading limits for the City of La Quinta. _____

16. Is your firm a member in the S.I.P.C. insurance program? Yes _____ No _____
 If yes, explain primary and excess coverage and carriers. _____

17. What portfolio information, if any, do you require from your clients? _____

18. What reports and transaction confirmations or any other research publications will the City receive? _____

19. Does your firm offer investment training to your clients? Yes _____ No _____
20. Does your firm have professional liability insurance? Yes _____ No _____
 If yes, please provide the insurance carrier, limits and expiration date. _____

21. Please list your FINRA/NASD Registration Number _____
22. Do you have any relatives who work at the City of La Quinta?
 Yes _____ No _____ If yes, Name and Department _____
23. Do you maintain an office in California? Yes _____ No _____
24. Do you maintain an office in La Quinta or Riverside County? Yes _____ No _____
25. Please enclose the following:
- ▶ Latest audited financial statements;
 - ▶ Samples of reports, transaction confirmations and any other research/publications the City will receive;
 - ▶ Samples of research reports and/or publications that your firm regularly provides to clients; and
 - ▶ Complete schedule of fees and charges for various transactions.

CERTIFICATION

I hereby certify that I have personally read the Statement of Investment Policy of the City of La Quinta, and have implemented reasonable procedures and a system of controls designed to preclude imprudent investment activities arising out of transactions conducted between our firm and the City of La Quinta. All sales personnel will be routinely informed of the City's investment objectives, horizons, outlooks, strategies and risk constraints whenever we are so advised by the City. We pledge to exercise due diligence in informing the City of La Quinta of all foreseeable risks associated with financial transactions conducted with our firm.

By signing this document the City of La Quinta is authorized to conduct any and all background checks.

Under penalties of perjury, the responses to this questionnaire are true and accurate to the best of my knowledge.

Broker Representative _____
Date _____ Title _____
Sales Manager and/or Managing Partner* _____
Date _____ Title _____

**Request for Proposals
Professional Portfolio Management Firm
City of La Quinta, CA**

The City of La Quinta, CA is soliciting Requests for Proposals (RFP) from interested firms for the provision of a discretionary investment management services for City of La Quinta, CA. The portfolio to be managed of the invested assets is will be approximately 10% of the City's investment portfolio and will be invested between 0 – 3 years.

The investment of City of La Quinta, CA's funds is guided by the applicable State statutes and the City of La Quinta, CA's investment policy. A copy of the investment policy is attached for your information.

Questions regarding this RFP should be directed to:

Name:	Rita Conrad
Title:	Finance Director/Treasurer
City of:	La Quinta, CA
Address:	78-495 Calle Tampico
City, State, Zip Code:	La Quinta, CA 92253
Phone Number:	(760)777-7150

I. CRITERIA FOR EVALUATION AND SELECTION

- Experience of the firm in providing services to public sector entities of similar size and with similar investment objectives;
- Professional experience and qualifications of the individuals assigned to the account;
- Portfolio management resources, investment philosophy and approach;
- Responsiveness to the RFP, communicating an understanding of the overall program and services required;
- Reporting capabilities;
- Fees.

II. SELECTION TIMETABLE

- A. [Month, Day and Year] Proposals due by [Time] PST.
- B. [Month, Day and Year] Proposals evaluated: to be determined
- C. [Month, Day and Year] [City of La Quinta, CA] [Board/Council] approves selection and awards contract.

III. FORMAT FOR PROPOSALS

Please format your response to this RFP in the following manner:

- A. Organization

1. Describe your organization, date founded, ownership and other business affiliations. Provide number and location of affiliated offices. Specify the number of years your organization has provided investment management service.
2. Describe your firm's revenue sources (e.g., investment management, institutional research, etc.) and comment on your firm's financial condition.
3. Within the past three years, have there been any significant developments in your organization (e.g., changes in ownership, new business ventures)? Do you expect any changes in the near future?
4. Describe any U.S. Securities and Exchange Commission (SEC) censures or litigation involving your organization, any officer, or employee at any time in the last ten years.
5. Describe the firm's fiduciary liability and/or errors and omissions insurance coverage. Include dollar amount of coverage.

B. Personnel

1. Identify the number of professionals employed by your firm by classification.
2. Provide an organization chart showing function, positions, and titles of all the professionals in your organization.
3. Provide biographical information on investment professionals that will be involved in the decision-making process for our portfolio, including number of years at your firm. Identify the person who will be the primary portfolio manager assigned to the account.
4. Describe your firm's compensation policies for investment professionals and address any incentive compensation programs.

C. Assets Under Management

1. Summarize your institutional investment management asset totals by category for your latest reporting period in the following table:

	<i>Number of Clients</i>	<i>Operating Funds</i>	<i>Number of Clients</i>	<i>Other Restrictive Funds</i>
Governmental	_____	\$ _____	_____	\$ _____
Governmental Pension	_____	\$ _____	N/A	N/A
Non Governmental Pension	_____	\$ _____	N/A	N/A

Corporate	_____	\$ _____	N/A	N/A
High Net Worth Client	_____	\$ _____	N/A	N/A
Endowmental/Foundation	_____	\$ _____	N/A	N/A

2. Provide the number of separate accounts whose portfolios consist of operating funds.
3. List in the following table the percentage by market value of aggregate assets under all governmental accounts under management for your latest reporting period:

Type of Asset	Percent by Market Value
U.S. Treasury securities	_____
Federal Agency obligations	_____
Corporate securities rated AAA-AA	_____
Corporate securities rated A	_____
Corporate securities rated BBB or lower	_____
Other (specify _____)	_____

4. Describe the procedures that your firm has in place to address the potential or actual credit downgrade of an issuer and to disclose and advise a client of the situation.
5. Provide data on account/asset growth over the past five years. Indicate the number of government accounts gained and the number of government accounts lost.
6. List your five governmental largest clients. Identify those that are exclusively operating fund relationships and/or those that are other relationships (e.g., bond fund, retirement fund).
7. Provide a copy of the firm's Form ADV, Parts I and II (including all schedules).
8. Provide proof of State of California Registration, if your firm is not eligible for SEC registration.
9. Provide a sample contract for services.

D. Philosophy/Approach

1. Describe your firm's investment philosophy for public clients, including your firm's philosophy regarding average duration, maturity, investment types, credit quality, and yield.
2. Describe in detail your investment process, as you would apply it to City of La Quinta, CA's portfolio.
3. What are the primary strategies for adding value to portfolios?
4. Describe the process you would recommend for establishing the investment objectives and constraints for this account.
5. Describe in detail your process of credit risk management, including how you analyze credit quality, monitor credits on an ongoing basis, and report credit to governmental accounts.
6. Describe your firm's trading methodology.
7. Describe your firm's decision-making process in terms of structure, committees, membership, meeting frequency, responsibilities, integration of research ideas, and portfolio management.
8. Describe your research capabilities as they would pertain to governmental accounts. What types of analysis do you use?
9. Describe the firm's approach to managing relationships with the broker-dealer community.

E. Portfolio Management

1. Are portfolios managed by teams or by one individual?
2. What is the average number of accounts handled per manager?
3. Which professional staff member will be the primary client contact for City of La Quinta, CA?
4. How frequently are you willing to meet with us?
5. Describe procedures used to ensure that portfolios comply with client investment objectives, policies, and bond resolutions.

F. Fees Charged

1. Please include a copy of your firm's fee schedule applicable to this RFP.
2. Identify any expenses that would not be covered through this fee structure and would be required in order to implement the firm's program.

3. Is there a minimum annual fee?

G. Performance Reporting

1. Please report on all accounts under \$100 million.
2. Please provide performance history for governmental accounts for the last five years.
3. Please provide risk measurements for governmental accounts for the last five years.
4. Indicate whether your returns are calculated and compiled in accordance with the Association for Investment Management and Research (AIMR/CFA Institute) standards.
5. Do your reports conform to the State of California reporting standards? Are you willing to customize your reports to meet our specifications?
6. How will you notify us of investment transactions?
7. Are confirmations of investment transactions sent directly by the broker/dealer to the client?
8. Do your reports include rating information on investments which is required by GASB 40?

H. References

Provide a list of at least five (5) client references in California. References should be public agencies with portfolio size and investment objectives similar to City of La Quinta, CA. Include length of time managing the assets, contact name, and phone number.

I. Insurance Requirements

Exhibit A defines the insurance requirements that will need to be met prior to the [Board/Council]'s approval of any agreement for services.

J. Submittal of proposals

1. Seven (7) copies of the proposal shall be submitted in a sealed envelope bearing the caption RFP for (City of La Quinta, CA) and addressed to:

City of La Quinta, CA
78-495 Calle Tampico
La Quinta, CA 92253
Attention: Rita Conrad, Finance Director/Treasurer

2. Proposal must be received no later than [Time] PST on [Month, Day, and Year].

3. Proposals should be verified before submission. The City of La Quinta, CA shall not be responsible for errors or omissions on the part of the respondent in preparation of a proposal. The City of La Quinta, CA reserves the right to reject any and all proposals, to wave any irregularities, or informalities in the proposals, and to negotiate modifications to any proposal.

Enclosures: Investment Policy
 Treasurers Report

City of La Quinta
Permissible Investment Chart – Professional Portfolio Management Firm

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
California Government Code Section	Investment Category	Maximum Maturity	Authorized Investment Limits (% of Portfolio)	Credit Rating Limits	Comments	Allowed per City Policy	Allowed per Professional Portfolio Management Firm
53601(a)	Local Agency Bonds	5 Years	None	None		No	No
53601(c)	State of California Obligations	5 Years	None	None		No	No
53601(d)	CA Local Agency Obligations	5 Years	None	Multiple		No	No
53601(i)	Repurchase Agreements	1 Year	None	None		No	No
53601(i)	Reverse Repurchase Agreements	92 Days	20% of the base value of the portfolio	None		No	No
53601(i)	Securities Lending Agreements	92 Days	20% of the base value of the portfolio	None		No	No
53684	County Pooled Investments	None	None	None		No	No
53632	Interest bearing active deposits	None	None	None	Collateralized 110%	Yes	Yes
53601(f)	Bankers Acceptances	180 Days	40%	None	"AA" or better	No	Yes
53601(h)	Negotiable CD's	5 Years	30%	None		Yes	Yes
53601(k)	Mutual Funds	None	20%	Multiple		No	Yes
53601(n)	Asset Backed Securities	5 Years	20%	AA		No	Yes
	Cash and Equivalents	None	None	None		Yes	Yes
16429.1	LAIF	None	None	None		Yes	No
53601(b)	US Treasuries	5 Years	None	None		Yes	Yes
53601(e)	US Agencies	5 Years	None	None		Yes	Yes
53601(g), 53635	Commercial Paper	270 Days	25% of portfolio	A-1 / P-1 / F-1		Yes	Yes
53601(k)	Medium Term Notes	5 Years	30%	A		Yes	Yes
	Money Market Mutual Funds	None	20%	Multiple		Yes	Yes
53601(m)	Time Deposits	5 Years	None	None		Yes	Yes
	Collateralized Bank Deposits (including non-negotiable CD's)	5 Years	None	None		Yes	Yes

Source of Columns (1) through (5) - Investment: Investment Portfolio Reporting Practices CA Debt and Investment Advisory Commission.

Note: The Professional Portfolio management Firm (PPMF) is not required to adhere to the City's buy and hold policy and does not need City Manager or City Treasurer approval to make permissible deposits and investments as detailed in column (8).

Investment Management Process and Risk

Except as provided for in Section 27000.3, Government Code Section 53600.3 declares as a trustee each person, treasurer, or governing body authorized to make investment decisions on behalf of local agencies. As trustees are subject to the prudent investor standard. These persons shall act with care, skill, prudence, and diligence under the circumstances then prevailing when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds. Section 53600.5 further stipulates that the primary objective of any person investing public funds is to safeguard principal; secondly, to meet liquidity needs of the depositor; and lastly, to achieve a return or yield on invested funds (Government Code Section 27000.5 specifies the same objectives for county treasurers and board of supervisors).

Risk is inherent throughout the investment process. There is investment risk associated with any investment activity and opportunity risk related to inactivity. Market risk is derived from exposure to overall changes in the general level of interest rates while credit risk is the risk of loss due to the failure of the insurer of a security. The market value of a security varies inversely with the level of interest rates. If an investor is required to sell an investment with a five percent yield in a comparable seven percent rate environment, that security will be sold at a loss. The magnitude of that loss will depend on the amount of time until maturity.

Purchasing certain allowable securities with a maturity of greater than five years requires approval of the governing board (see Government Code Section 53601). Part of that approval process involves assessing and disclosing the risk and possible volatility of longer-term investments

Another element of market risk is liquidity risk. Instruments with unique call features or special structures, or those issued by little known companies, are examples of "story bonds" and are often thinly traded. Their uniqueness often makes finding prospective buyers in a secondary market more difficult and, consequently, the securities' marketability and price are discounted. However, under certain market conditions, gains are also possible with these types of securities.

Default risk represents the possibility that the borrower may be unable to repay the obligation as scheduled. Generally, securities issued by the federal government and its agencies are considered the most secure, while securities issued by private corporations or negotiable certificates of deposit issued by commercial banks have a greater degree of risk. Securities with additional credit enhancements, such as bankers acceptances, collateralized repurchase agreements and collateralized bank deposits are somewhere between the two on the risk spectrum.

The vast majority of portfolios are managed within a buy and hold policy. Investments are purchased with the intent and capacity to hold that security until maturity. At times, market forces or operations may dictate swapping one security for another or selling a security before maturity. Continuous analysis and fine tuning of the investment portfolio are considered prudent investment management.

The Government Code contains specific provisions regarding the types of investments and practices permitted after considering the broad requirement of preserving principal and maintaining liquidity before seeking yield. These provisions are intended to promote the use of reliable, diverse, and safe investment instruments to better ensure a prudently managed portfolio worthy of public trust.

GLOSSARY

(Adopted from the Municipal Treasurers Association)

The purpose of this glossary is to provide the reader of the City of La Quinta investment policies with a better understanding of financial terms used in municipal investing.

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

ASKED: The price at which securities are offered.

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

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

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

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

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

COMMERCIAL PAPER: Short-term unsecured promissory notes issued by a corporation to raise working capital. These negotiable instruments are purchased at a discount to par value or at par value with interest bearing. Commercial paper is issued by corporations such as General Motors Acceptance Corporation, IBM, Bank America, etc.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the City of La Quinta. 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.

CONDUIT FINANCING: A form of Financing in which a government or a government agency lends its name to a bond issue, although it is acting only as a conduit between a specific project and bond holders. The bond holders can look only to the revenues from the project being financed for repayment and not to the government or agency whose name appears on the bond.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

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

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: (1) 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, or (2) 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&L's, small business firms, students, farmers, farm cooperatives, and exporters.

1. FNMA's (Federal National Mortgage Association) - Like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.
2. FHLBs (Federal Home Loan Bank Notes and Bonds) - Issued by the Federal Home Loan Bank System to help finance the housing industry. The notes and bonds provide liquidity and home mortgage credit to savings and loan associations, mutual savings banks, cooperative banks, insurance companies, and mortgage-lending institutions. They are issued irregularly for various maturities. The minimum denomination is \$5,000. The notes are issued with maturities of less than one year and interest is paid at maturity.
3. FLBs (Federal Land Bank Bonds) - Long-term mortgage credit provided to farmers by Federal Land Banks. These bonds are issued at irregular times for various maturities ranging from a few months to ten years. The minimum denomination is \$1,000. They carry semi-annual coupons. Interest is calculated on a 360-day, 30 day month basis.
4. FFCBs (Federal Farm Credit Bank) - Debt instruments used to finance the short and intermediate term needs of farmers and the national agricultural industry. They are issued monthly with three- and six-month maturities. The FFCB issues larger issues (one to ten year) on a periodic basis. These issues are highly liquid.
5. FICBs (Federal Intermediate Credit Bank Debentures) - Loans to lending institutions used to finance the short-term and intermediate needs of farmers, such as seasonal production. They are usually issued monthly in minimum denominations of \$3,000 with a nine-month maturity. Interest is payable at maturity and is calculated on a 360-day, 30-day month basis.
6. FHLMCs (Federal Home Loan Mortgage Corporation) - a government sponsored entity established in 1970 to provide a secondary market for conventional home mortgages. Mortgages are purchased solely from the Federal Home Loan Bank System member lending institutions whose deposits are insured by agencies of the United States Government. They are issued for various maturities and in minimum denominations of \$10,000. Principal and interest is paid monthly. Other federal agency issues are Small Business Administration notes (SBA's), Government National Mortgage Association notes (GNMA's), Tennessee Valley Authority notes (TVA's), and Student Loan Association notes (SALLIE-MAE's).

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per deposit through December 31, 2013.

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

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, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FMHM mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

LAIF (Local Agency Investment Fund) - A special fund in the State Treasury which local agencies may use to deposit funds for investment. There is no minimum investment period and the minimum transaction is \$5,000, in multiples of \$1,000 above that, with a maximum balance of

\$50,000,000 for any agency. The City is restricted to a maximum of ten transactions per month. It offers high liquidity because deposits can be converted to cash in 24 hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share basis determined by the amounts deposited and the length of time they are deposited. Interest is paid quarterly. The State retains an amount for reasonable costs of making the investments, not to exceed one-half of one percent of the earnings.

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

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

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

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

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

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

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve

Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of all cash and securities under the direction of the City Treasurer, including Bond Proceeds.

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

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

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

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

REVERSE REPURCHASE AGREEMENTS (RRP or RevRepo) - A holder of securities sells these securities to an investor with an agreement to

repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RRP extensively to finance their positions. Exception: When the Fed is said to be doing RRP, it is lending money that is increasing bank reserves.

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

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

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

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

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, and derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

SURPLUS FUNDS: Section 53601 of the California Government Code defines surplus funds as any money not required for immediate necessities of the local agency. The City has defined immediate necessities to be payment due within one week.

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: Long-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 10 years.

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

UNIFORM PRUDENT INVESTOR ACT: The State of California has adopted this Act. The Act contains the following sections: duty of care, diversification, review of assets, costs, compliance determinations, delegation of investments, terms of prudent investor rule, and application.

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

CITY OF LA QUINTA
Investment Policy
Fiscal Year ~~2014/2015~~2015/2016

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CITY OF LA QUINTA
Investment Policy
Fiscal Year ~~2014/2015~~2015/2016

Executive Summary

The general purpose of this Investment Policy is to provide the rules and standards that must be followed in administering the City of La Quinta's deposits and investments.

The City's Investment Policy conforms to all state and local statutes and applies to all deposits and investments of the City of La Quinta (the "City").

It is the City's policy to deposit and invest public funds in a manner that shall provide:

- ▶ Safety of principal;
- ▶ Liquidity to meet all of the City's obligations and requirements that may be reasonably anticipated; and
- ▶ A risk-based market rate of return.

It is the City's policy to hold securities and other investments until maturity. This buy-and-hold policy shall not prevent the sale of a security to minimize loss of principal when an issuer or backer suffers declining credit worthiness or when the liquidity needs of the portfolio require that a security be sold.

Authority to manage the City's investment portfolio is derived from the City Municipal Code. Management responsibility for the investment program is delegated to the City Treasurer, who shall establish and implement written procedures for the operation of the City's investment program consistent with the Investment Policy. The Treasurer shall establish and implement a system of internal controls to accomplish the following objectives:

- ▶ Safeguard assets;
- ▶ Orderly and efficiently conduct its business, including adherence to all City management policies;
- ▶ Prevent or detect errors and fraud;
- ▶ Accurately complete all accounting records; and
- ▶ Timely prepare all reliable financial information.

The System of Internal Controls developed by the City Treasurer shall be reviewed annually by the independent auditors in connection with the annual audit of the City's financial statements.

The City Manager, City Treasurer and city employees involved in the City's banking and investment process shall conduct the City's business in an ethical manner and refrain from any activity or relationship that may be, or have the appearance of, a conflict of interest.

The City Treasurer maintains a listing of financial institutions which are approved for investment purposes. All Broker/Dealers and financial institutions that provide investment services will be subject to City Council approval.

The Treasurer will be permitted to invest only in the permissible deposits and investments described in Section X and Appendix A up to the specified maximum allowable percentages and/or dollar limitations and, where applicable, through the bid process requirements. Permissible deposits and investments include, in general:

- ▶ FDIC-Insured Checking, Savings, and Sweep Accounts;
- ▶ Collateralized Bank Deposits;

- ▶ Certificates of Deposit;
- ▶ Negotiable Certificates of Deposit;
- ▶ U.S. Government Agency Securities and Federal Government Securities;
- ▶ Prime Commercial Paper;
- ▶ Local Agency Investment Fund (LAIF);
- ▶ Money Market Mutual Funds;
- ▶ Corporate Notes; and
- ▶ Professionally Managed Accounts.

The City's deposits and investments are generally limited to three years' maximum maturity. However, the projected amount of funds not expected to be disbursed within five years may be invested in notes and bonds maturing between three and five years. Additionally, funds may be invested for up to ten (10) years as further discussed in Section V.

The City's Investment Policy does not specify a single benchmark as a goal or target yield for a rate of return on its investment portfolio. As a basis for comparison only, the Treasurer's monthly report will display the rates of return on the three-month Bill, six-month Bill, and the one and two-year U.S. Treasury Note, comparable-period rates for commercial paper, and the yield for the State Treasurer's Local Agency Investment Fund (LAIF).

The Investment Policy shall be adopted by resolution of the La Quinta City Council on an annual basis. The Investment Policy will be adopted before the end of June of each year.

This Executive Summary is only an overview of the City's Investment Policy. Reading this summary does not constitute a complete review, which can only be accomplished by reviewing all of the pages herein.

**City of La Quinta
Statement of Investment Policy**

July 1, ~~2014-2015~~ through June 30, ~~2015~~2016

Adopted by the City Council on ~~June 17,~~ 2014~~5~~

I GENERAL PURPOSE

The general purpose of this document is to provide the rules and standards that must be followed in administering the City of La Quinta's deposits and investments.

II INVESTMENT POLICY

It is the policy of the City of La Quinta to deposit and invest public funds in a manner that shall provide:

- ▶ Safety of principal;
- ▶ Liquidity to meet all of the City's obligations and requirements that may be reasonably anticipated; and
- ▶ A risk-based market rate of return.

The Investment Policy conforms to all State and local statutes governing the investment of public funds and sets forth the permissible deposits and investments of the City's funds and the limitations thereon.

III SCOPE

Except as further detailed in Section XVII, this Investment Policy applies to all deposits and investments of the City of La Quinta, Successor Agency to the City of La Quinta Redevelopment Agency and the City of La Quinta Financing and Housing Authorities (hereafter referred to in this document as the "City"). These funds are reported in the City's Comprehensive Annual Financial Report (CAFR) and include all funds within the following fund types:

- ▶ General
- ▶ Special Revenue
- ▶ Capital Projects
- ▶ Debt Service
- ▶ Enterprise
- ▶ Internal Service
- ▶ Trust and Agency
- ▶ Any new fund types and fund(s) that may be created.

IV OBJECTIVES

The objectives of the City's investment activity, in order of priority and importance, are:

1. Safety of Principal

Safety of principal is the foremost objective of the City's investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of principal of the overall portfolio in accordance with the permissible deposits and investments.

The City shall endeavor to preserve its investment principal by making only permissible deposits and investments, undertaken in a controlled manner to minimize the possibility of loss or misappropriation through malfeasance or otherwise. Investments not backed by the full faith and credit of the United States Government shall be diversified by allocating assets between different types of permissible investments, maturities, and issuers as a means to mitigate credit risk and interest rate risk.

- a. Credit Risk is the risk of loss from the failure of the security issuer or backer. Credit risk may be mitigated by:
 - ▶ Limiting investments to investment grade securities as permitted in Section X;
 - ▶ Diversifying the issuers of the securities in the investment portfolio so that potential losses due to issuer failure or individual securities downgrades may be minimized.
- b. Interest Rate Risk is the risk that market values of securities in the portfolio will decline due to changes in general interest rates. Interest rate risk may be mitigated by:
 - ▶ Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; and
 - ▶ Investing operating funds primarily in shorter-term securities.
- c. Liquidity Risk is the risk that a security cannot be liquidated because of its unique features or structure or because it is thinly traded. Liquidity risk is not a material issue for the City's portfolio because of the permissible deposits and investments (see Section X) and because the City maintains a buy-and-hold policy and holds securities and other investments to maturity. A discussion of the City's investment process and risk is presented in Appendix I.

2. **Provide Liquidity**

The investment portfolio shall remain sufficiently liquid to meet all of the City's cash needs that may be reasonably anticipated. This is accomplished by structuring the portfolio so that sufficient liquid funds are available to meet anticipated demands. Furthermore, since all possible cash needs cannot be anticipated the portfolio should be diversified and consist of securities with active secondary or resale markets.

The City's policy is to hold securities and other investments to maturity. Accordingly, securities shall not be sold prior to maturity with the following exceptions:

- ▶ A security with declining credit quality can be sold early to minimize loss of principal;
- ▶ Unanticipated liquidity needs of the portfolio require that one or more securities be sold.

3. **Yield a Risk-Based Market Rate Of Return**

The City's investment portfolio shall be structured with the objective of yielding a risk-based market rate of return throughout budgetary and economic cycles. Return on investment is less important than the safety and liquidity objectives described above.

The City's Investment Policy does not specify a single benchmark as a goal or target yield for a rate of return on its investment portfolio. The portfolio's rates of return will be

influenced by several factors, including actions by the Federal Reserve Board, the marketplace, and overall economic perceptions and conditions. These factors will not affect yield during the securities' holding period because the City's buy-and-hold policy fixes the securities' yield at the time of purchase.

As a basis for comparison only, the Treasurer's monthly reports will display the rates of return on the three-month Bill, six-month Bill, and one and two-year U.S. Treasury Note, comparable-period rates for commercial paper, and the yield for the State Treasurer's Local Agency Investment Fund (LAIF). The Treasurer may use these or any other published rates of return that the Treasurer deems appropriate for comparison to the return on the City's investment portfolio.

V MAXIMUM MATURITIES

It is the City's policy to hold securities and other investments until maturity, thus avoiding the risk of market value fluctuations with overall market interest rates. This buy-and-hold policy shall not prevent the sale of a security to minimize loss of principal when an issuer or backer suffers declining credit worthiness or when the liquidity needs of the City require that a security be sold.

The buy-and-hold policy requires that the City's investment portfolio be structured so that sufficient liquid funds are available from maturing investments and other sources to meet all reasonably-anticipated cash needs. To meet anticipated cash needs, it is essential that the Treasurer have reliable, diligently prepared cash flow projections.

Annually, the Treasurer shall project the amount of funds not expected to be disbursed within ten years. For FY ~~2014/2015~~ 2015/2016, the amount of such funds is projected to be \$20 million. Funds up to that amount may be invested in U.S. Treasury notes and bonds, Local Agency Obligations, and California Local Agency Obligations maturing between 3 and 10 years. For all other funds, investments are limited to five years maximum maturity.

VI PRUDENCE

The City shall follow the Uniform Prudent Investor Act as adopted by the State of California in Probate Code Sections 16045 through 16054.

Section 16053 sets forth the terms of a prudent person which are as follows: "Investments shall be made with judgment and care - under circumstances then prevailing - which persons of prudence, discretion, and intelligence exercise in the professional 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."

VII AUTHORITY

Authority to manage the City's investment portfolio is derived from section 3.08 of the City's Municipal Code. Management responsibility for the investment program is delegated to the City Treasurer for a period of one year pursuant to the City Council's annual adoption of the Investment Policy.

The City Treasurer shall establish written procedures for the operation of the investment program consistent with the Investment Policy. Procedures should include reference to safekeeping, wire

transfer agreements, banking service contracts, and collateral/depository agreements. Such 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 Investment Policy and the procedures established by the City Treasurer. 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 Manager or his/her designee shall acknowledge in writing all purchases and sales of investments prior to their execution by the City Treasurer.

VIII ETHICS AND CONFLICTS OF INTEREST

The City Manager, City Treasurer and city employees involved in the City's banking and investment process shall conduct the City's business in an ethical manner and refrain from any activity or relationship that may be, or have the appearance of, a conflict of interest. Any questionable activity or relationship shall be reported immediately and in compliance with the procedures set forth in Section 1.40 – Conflicts of Interest and Acceptance of Gifts and other Gratuities of the City of La Quinta Personnel Manual. Reporting must be made in accordance with the personnel policies of the City and, until resolved, the officer or employee shall refrain from participating in the City's business related to the matter.

The City Manager, City Treasurer and City employees may conduct personal business with banks, brokers, and other financial institutions that are authorized to conduct business with the City provided that the terms of the activity to the account holder with the City are the same as those that are available to the public in general.

IX AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The City Treasurer maintains a listing of financial institutions which are approved for direct investment purposes. In addition a list will also be maintained of approved broker/dealers selected by credit worthiness.

1. **Broker/Dealers** who desire to become bidders for direct investment transactions must supply the City with the following:
 - ▶ Current audited financial statements;
 - ▶ Proof of Financial Industry Regulatory Authority (FINRA) Certification;
 - ▶ Trading resolution;
 - ▶ Resume of Financial broker; and
 - ▶ Completion of the City of La Quinta Broker/Dealer questionnaire (see Appendix F) which contains a certification of having read the City's Investment Policy.

The City Treasurer shall evaluate the documentation submitted by the broker/dealer and independently verify existing reports on file for any firm and individual conducting investment related business.

The City Treasurer will also contact the following agencies during the verification process:

- ▶ Financial Industry Regulatory Authority (FINRA) Public Disclosure Report File (1-800-289-9999).
- ▶ State of California Department of Corporations (1-916-445-3062).

The City Treasurer maintains a listing of financial institutions which are approved for investment purposes. All Broker/Dealers and financial institutions that provide investment services will be subject to City Council approval.

Each securities dealer shall provide monthly and quarterly reports filed pursuant to U.S. Treasury Department regulations. Each mutual fund shall provide a prospectus and statement of additional information.

2. **Financial Institutions** will be required to meet the following criteria in order to receive City funds for deposit or investment (see Appendix E, "Listing of Approved Financial Institutions"):

- a. Insurance - Public Funds shall be deposited only in financial institutions having accounts insured by the Federal Deposit Insurance Corporation (FDIC).
- b. Collateral - The amount of the City's deposits or investments not insured by the FDIC—shall be collateralized by securities with market values of 110%, or by mortgages with market values 150%, of the amount of invested funds plus unpaid interest earnings.
- c. Disclosure - Each financial institution maintaining invested funds in excess of the FDIC insured amount shall furnish the City a copy of the most recent Call Report.

The City shall not invest in excess of the FDIC insured amount in banking institutions which do not disclose to the city a current listing of securities pledged for collateralization in public monies.

X PERMISSIBLE DEPOSITS AND INVESTMENTS

Permissible deposits and investments are summarized below. A more comprehensive list is included in Appendix A.

Permissible Investments and Limitations (See Appendix A for Additional Information)	Maximum Allocation	Maximum Maturity	Restrictions
Checking & Savings Accounts FDIC Insured & Sweep Accounts	85% of Portfolio	Current / On Demand	Sweep Account: U.S. Treasuries and/or GSE's
Interest bearing active bank deposits – non FDIC insured collateralized by 110% of eligible securities	60% of Portfolio	Current / On Demand	\$40 million per bank
Certificates of Deposit - FDIC Insured	60% of Portfolio	5 Years	<= \$250,000, including interest per institution
Negotiable Certificates of Deposit – FDIC Insured	30% of Portfolio	5 Years	<= \$250,000 including interest per institution
U.S. Treasury Bills, Notes and Bonds, and Government National Mortgage Association (GNMA) Securities	100% of Portfolio	5 Years	<=\$20,000,000 maturing 3-10 Yrs.

Permissible Investments and Limitations (See Appendix A for Additional Information)	Maximum Allocation	Maximum Maturity	Restrictions
Local Agency Bonds / California Local Agency Obligations	30% of Portfolio	10 Years	<=\$20,000,000 maturing 3-10 Yrs. Long term "A, A2, A" or better
U.S. Government Agency Securities and Federal Government Securities (except collateralized mortgage obligations (CMO's) or structured notes which contain embedded rate options): - Federal National Mortgage Association (FNMA) - Federal Home Loan Bank Notes & Bonds (FHLB) - Federal Farm Credit Bank (FFCB) - Federal Home Loan Mortgage Corporation (FHLMC)	\$20,000,000 \$25,000,000 \$30,000,000 \$20,000,000	5 Years 5 Years 5 Years 5 years	\$10 million per purchase 30% of Portfolio
Prime Commercial Paper including Temporary Liquidity Guarantee Program (TLGP)	15% of Portfolio	90 Days	\$5,000,000 per issuer maximum
Local Agency Investment Fund (LAIF)	30% of Portfolio	Current / On Demand	\$50 million per account
Money market mutual funds regulated by the SEC that consist only of US Treasury Securities or GSE's and maintain a par value of \$1 per share	20% of Portfolio	Current / On Demand	Maintain \$1 per share par value
Corporate Notes	10% of Portfolio	3 Years	\$5,000,000 max per issuer AA rated or better
Corporate Notes - Temporary Liquidity Guarantee Program (TLGP)	20% of Portfolio	3 Years	\$10,000,000 max per issuer, AA rated or better
Professionally Managed Account	10% of Portfolio	3 Years	Requires City Council-Approved RFP

Long-Term Scale
S&P A1 AAA, AA+, AA, AA-, A+, A
Moody's P1 Aaa, Aa1, Aa2, Aa3, A1, A2
Fitch AAA, AA+, AA, AA-, A+, A

Checking, Savings, and Sweep Accounts – The City will only maintain checking, savings, and sweep accounts with FDIC insured financial institutions. As authorized by the City Council, a U.S. Treasury and/or U.S. Agency Securities Money Market Sweep Account with a \$50,000 target balance may be maintained in conjunction with the checking account.

In addition, the Treasurer may invest in an interest bearing active deposit account as approved in Government Code Section 53632. The deposit account must be collateralized with securities that are in accordance with Government Code Sections 53632.5(c). In addition, the market value of the collateralized securities must be maintained in accordance with 53652 (a), and be held by a custodian in accordance with the requirements of Government Code Section 53656. The proposition of the City's share of the deposit account shall be determined in accordance with Government Code Section 53658.

Certificates of Deposit - As authorized in Government Code Section 53649, Certificates of Deposit are fixed term investments which are required to be collateralized from 110% to 150% depending on the specific security pledged as collateral in accordance with Government Code Section 53652.

Collateralization will be required for Certificates of Deposits in excess of the FDIC insured amount. The type of collateral is limited to City authorized investments. Collateral will always be held by an independent third party from the institution that sells the Certificates

of Deposit to the City. Evidence of compliance with State Collateralization policies must be supplied to the City and retained by the City Treasurer as follows:

- ▶ Certificates of Deposits Insured by the FDIC: The City Treasurer may waive collateralization of a deposit that is federally insured.
- ▶ Certificates of Deposit in excess of FDIC Limits: The amount not federally insured shall be 110% collateralized securities or 150% mortgages market value of that amount of invested funds plus unpaid interest earnings.

The City's Investment Policy limits the percentage of Certificates of Deposit to 60% of the portfolio.

Negotiable Certificates of Deposit - issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally- or state- licensed branch of a foreign bank. No more than 30% of the City's portfolio may be invested in negotiable CDs.

U.S. Treasury Bills, Notes, and Bonds and Government National Mortgage Associations (GNMA) securities – The City may invest in U.S. Treasury bills, notes, and bonds and GNMA securities directly issued and backed by the full faith and credit of the U.S. Government. The City's Investment Policy provides for investments in U.S. Treasury issues and GNMA's of 100% of the portfolio.

- ▶ The City's Investment Policy does not allow investments in state indebtedness.

Local Agency Bonds and California Local Agency Obligations – The City may invest in California local agency obligations pursuant to 56301(a) and 53301(e). 53601(a) pertains to investing in bonds issued by a local agency, department, board, agency or authority of the local agency. 53601(e) pertains to investing in bonds and other defined indebtedness of a local agency or department, board, agency or authority of the local agency within the State of California.

The City's Investment Policy limits investments in Local Agency Bonds and California Local Agency obligations to 30% of the portfolio with up to a ten year maximum maturity. In addition, the Agency obligations must be invested in the long term rating of A, A2, A or better by S&P, Moody's or Fitch.

In the case of an initial public offering, including refinancings, the Treasurer may purchase directly from the Bond Underwriter. In the case of secondary issues, the Treasurer will rely on the approved Broker/Dealers.

U.S. Government Agency Securities and Federal Government Securities – The City may invest in securities issued by U.S. Government instrumentalities and agencies (commonly referred to as government sponsored enterprises or GSE's). These securities are not backed by the full faith and credit of the U.S. Government. Publicly owned GSE's include

Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Student Loan Marketing Association (SLMA). Non-publicly owned GSE's include the Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Federal Land Bank (FLB) and Federal Intermediate Credit Bank (FICB).

The City's Investment Policy allows investment only in securities of FNMA, FHLMC, FHLB and FFCB. For Fiscal Year ~~2014/2015~~2015/2016, the maximum face amount per issuer is \$20 million for FNMA and FHLMC, \$25 million for FHLB and \$30 million for FFCB. In addition, no more than 30% of the portfolio surplus may be invested in all GSE's combined with a maximum \$10 million face amount per purchase.

Prime Commercial Paper - As authorized in Government Code Section 53601(g), a portion of the City's portfolio may be invested in commercial paper of the highest rating (A1 or P1) as rated by Moody's or Standard and Poor's. There are a number of other qualifications regarding investments in commercial paper based on the financial strength of the corporation and the size of the investment. The City's Investment Policy permits investments in commercial paper with the following limitations:

- ▶ Maximum 15% of the portfolio.
- ▶ Maximum maturity of 90 days.
- ▶ Maximum of \$5 million per issuer.

These limitations are more restrictive than the State code which allows amounts of 25% of the total portfolio with maturities up to 270 days with no per-issuer limitations.

Local Agency Investment Fund (LAIF) - As authorized in Government Code Section 16429.1 and by LAIF procedures, local government agencies are each authorized to invest a maximum of \$50 million per account in this investment program administered by the California State Treasurer. The City Treasurer may not invest more than \$50 million per account in LAIF. The City's investment in LAIF is allowable as long as the average maturity of its investment portfolio does not exceed two years, unless specific approval is authorized by the City Council. The City limits investment to 30% of the portfolio.

Money Market Mutual Funds - As authorized in Government Code Section 53601(k), local agencies are authorized to invest in shares of beneficial interest issued by diversified management companies (mutual funds) in an amount not to exceed 20% of the agency's portfolio. There are a number of other qualifications and restrictions regarding allowable investments in corporate notes and shares of beneficial interest issued by mutual funds which include (1) attaining the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services, or (2) having an investment advisor registered with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations and with assets under management in excess of five hundred million dollars (\$500,000,000).

The City's Investment Policy only allows investments in mutual funds that are money market funds maintaining a par value of \$1 per share that invest in direct issues of the U.S. Treasury and/or US Agency Securities with an average maturity of their portfolio not exceeding 90 days and the City limits such investments to 20% of the portfolio.

Corporate Notes - As authorized in Government Code Section 53601 (j), local agencies may invest in corporate notes. The notes must be issued by corporations organized and

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operating in the United States or by depository institutions licensed by the United States or any other state and operating in the United States. The City's Investment Policy allows investment in corporate notes authorized by the Government Code with the following limitations:

- ▶ Maturities shall not exceed three years from date of purchase;
- ▶ Eligible notes shall be regularly quoted and traded in the marketplace;
- ▶ Eligible notes shall be rated "AA" or better; and
- ▶ The maximum aggregate investment shall not exceed \$5 million face amount for each issuer.

This is more restrictive than the State code allowed amounts of 30% of the total portfolio with maturities up to five years with no per-issuer limitations.

Professionally Managed Account(s) - The City Treasurer may place up to 10% of the portfolio with a professional portfolio management firm ("PPMF"). The PPMF will be approved by the City Council based upon the City Treasurer's recommendation pursuant to completion of a request for proposal (RFP) as outlined in Appendix G. The PPMF shall have:

- ▶ An established professional reputation for asset or investment management;
- ▶ Knowledge and working familiarity with State and Federal laws governing and restricting the investment of public funds;
- ▶ Substantial experience providing investment management services to local public agencies whose investment policies and portfolio size are similar to those of the City;
- ▶ Professional liability (errors and omissions) insurance and fidelity bonding in such amounts as are required by the City; and
- ▶ Registration with the Securities and Exchange Commission under the Investment Advisers Act of 1940.

Before engagement by the City and except as may be specifically waived or revised, the PPMF shall commit to adhere to the provisions of the City's Investment Policy with the following exceptions:

- ▶ The PPMF may be granted the discretion to purchase and sell investment securities in accordance with Appendix I of this Investment Policy;
- ▶ The PPMF is not required to adhere to the buy-and-hold policy of the City's Investment Policy; and
- ▶ The PPMF does not need City Manager or City Treasurer approval to make permissible investments as detailed in column 8 of Appendix H of this Investment Policy.

XI INVESTMENT POOLS

There are three (3) types of investment pools:

- ▶ State-run pools (e.g., LAIF);
- ▶ Pools that are operated by a political subdivision where allowed by law and the political subdivision is the trustee (e.g., County Pools); and
- ▶ Pools that are operated for profit by third parties.

The City's Investment Policy permits investment only in pools authorized in Section X.

XII PAYMENT AND CUSTODY

The City shall engage qualified third party custodians to act in a fiduciary capacity to maintain appropriate evidence of the City's ownership of securities and other eligible investments. Such custodians shall disburse funds, received from the City for a purchase, to the broker, dealer or seller only after receiving evidence that the City has legal, record ownership of the securities. Even though ownership is evidenced in book-entry form rather than by actual certificates, this procedure is commonly accepted as the delivery versus payment (DVP) method for the transfer of securities.

XIII INTEREST EARNING DISTRIBUTION POLICY

Interest earnings are generated from pooled investments and specific investments. The following provisions apply to the calculation and distribution of interest earnings.

1. **Pooled Investments** - It is the general policy of the City to pool all available operating cash of the City of La Quinta, Successor Agency to the City of La Quinta Redevelopment Agency, La Quinta Financing Authority, and La Quinta Housing Authority, and to allocate interest earnings in the following order, as follows:
 - a. Payment to the General Fund of an amount equal to the total annual bank service charges as incurred by the general fund for all operating funds as included in the annual operating budget.
 - b. Payment to the General Fund of a management fee equal to 5% of the annual pooled cash fund investment earnings.
 - c. Payment to each fund of an amount based on the average computed daily cash balance included in the common portfolio for the earning period.
2. **Specific Investments** - Specific investments purchased by a fund shall incur all earnings and expenses to that particular fund.

XIV INTERNAL CONTROLS AND INDEPENDENT AUDITOR

The City Treasurer shall establish a system of internal controls to accomplish the following objectives:

- ▶ Safeguard assets;
- ▶ The orderly and efficient conduct of its business, including adherence to management policies;
- ▶ Prevention or detection of errors and fraud;
- ▶ The accuracy and completeness of accounting records; and
- ▶ Timely preparation of reliable financial information.

While no internal control system, however elaborate, can guarantee absolute assurance that the City's assets are safeguarded, it is the intent of the City's internal control to provide a reasonable

assurance that management of the investment function meets the City's objectives.

The internal controls shall address the following:

- ▶ Control of collusion. Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
- ▶ Separation of transaction authority from accounting and record keeping. By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
- ▶ Custodial safekeeping. Securities purchased from any bank or dealer including appropriate collateral (as defined by State Law) shall be placed with an independent third party for custodial safekeeping.
- ▶ Avoidance of physical delivery securities. Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
- ▶ Clear delegation of authority to subordinate staff members. Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities as outlined in the Segregation of Major Investment Responsibilities appendices.
- ▶ Written confirmation or telephone transactions for investments and wire transfers. Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions shall be supported by written communications or electronic confirmations and approved by the appropriate person. Written communications may be via fax if on letterhead and the safekeeping institution has a list of authorized signatures. Fax correspondence must be supported by evidence of verbal or written follow-up.
- ▶ Development of a wire transfer agreement with the City's bank and third party custodian. This agreement should outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.

The system of internal controls developed by the City, shall be reviewed annually by the independent auditor in connection with the annual audit of the City's Financial Statements. The independent auditor's letter on internal control over financial reporting and compliance as it pertains to cash and investments, if any, shall be directed to the City Manager who will direct the City Treasurer to provide a written response to the independent auditor's letter. The auditor's letter, as it pertains, to cash and investment activities and the City Treasurer's response shall be provided to the City's Investment Advisory Board for their consideration. Following the completion of each annual audit, the independent auditor shall meet with the Investment Advisory Board and discuss the auditing procedures performed and the review of internal controls for cash and investment activities. See Appendix D, "Segregation of Major Investment Responsibilities."

XV REPORTING STANDARDS

The City Treasurer shall submit a monthly Treasurers Report to the City Council and the Investment Advisory Board that includes all cash and investments under the authority of the

Treasurer. The Treasurer's Report shall summarize cash and investment activity and changes in balances and include the following:

- ▶ A certification by the City Treasurer;
- ▶ A listing of purchases and sales/maturities of investments;
- ▶ Cash and Investments categorized by authorized investments, except for LAIF which will be provided quarterly and show yield and maturity;
- ▶ Comparison of month end actual holdings to Investment Policy limitations;
- ▶ Current year and prior year monthly history of cash and investments for trend analysis;
- ▶ Balance Sheet;
- ▶ Distribution of cash and investment balances by fund;
- ▶ A year to date historical cash flow analysis and projection for the next six months; and
- ▶ A two-year list of historical interest rates.

XVI FINANCIAL ASSETS AND INVESTMENT ACTIVITY NOT SUBJECT TO THIS POLICY

The City's Investment Policy does not apply to the following:

- ▶ Cash and Investments raised from Conduit Debt Financing
- ▶ Funds held in trust in the City's name in pension or other post-retirement benefit programs
- ▶ Cash and Investments held in lieu of retention by banks or other financial institutions for construction projects
- ▶ Short or long term loans made to other entities by the City or Agency
Short term (Due to/from) or long term (Advances from/to) obligations made either between the City and its funds or between the City and Agency

XVII INVESTMENT OF BOND PROCEEDS

The City's Investment Policy shall govern bond proceeds and bond reserve fund investments. California Code Section 5922 (d) governs the investment of bond proceeds and reserve funds in accordance with bond indenture provisions which shall be structured in accordance with the City's Investment Policy.

Arbitrage Requirement - The US Tax Reform Act of 1986 requires the City to perform arbitrage calculations as required and return excess earnings to the US Treasury from investments of proceeds of bond issues sold after the effective date of this law. These arbitrage calculations may be contracted with an outside source to provide the necessary technical assistance to comply with this regulation. Investable funds subject to the 1986 Tax Reform Act will be kept segregated from other funds and records will be kept in a fashion to facilitate the calculations.

The City's investment position relative to the new arbitrage restrictions is to continue pursuing the maximum yield on applicable investments while ensuring the safety of capital and liquidity. It is the City's position to continue maximization of yield and to rebate excess earnings, if necessary.

XVIII INVESTMENT ADVISORY BOARD - CITY OF LA QUINTA

The Investment Advisory Board (IAB) is a standing board composed of five members from the public that are appointed by the City Council. Background information will be requested and potential candidates must agree to a background check and verification. On an annual basis, in conjunction with the Political Reform Act disclosure statutes, or at any time if a change in circumstances warrants, each board member will provide the City Council with a disclosure statement which identifies any matters that have a bearing on the appropriateness of that member's service on the board. All board members shall report annually to the City Clerk on Form 700, Statement of Economic Interests, any activities, interests, or relationships that may be, or have the appearance of, a conflict of interest.

The IAB must meet at least quarterly, but usually meets monthly, to:

- ▶ Review at least annually the City's Investment Policy and recommend appropriate changes;
- ▶ Review monthly treasury report and note compliance with the Investment Policy and adequacy of cash and investments for anticipated obligations;
- ▶ Receive and consider other reports provided by the City Treasurer;
- ▶ Meet with the independent auditor after completion of the annual audit of the City's financial statements, and receive and consider the auditor's comments on auditing procedures, internal controls and findings for cash and investment activities; and
- ▶ Serve as a resource for the City Treasurer on matters such as proposed investments, internal controls, use or change of financial institutions, custodians, brokers and dealers.

The IAB will report to the City Council after each meeting either in person or through correspondence at a regular City Council meeting. See Appendix B: "Investment Advisory Board Provisions."

XIX INVESTMENT POLICY ADOPTION

The City's Investment Policy will be reviewed annually by the City's Investment Advisory Board and the City Treasurer. The Investment Advisory Board will forward the Investment Policy with any revisions to the City Manager and City Attorney for their review and comment. A joint meeting will be held with the Investment Advisory Board, City Manager, City Attorney, and City Treasurer to review the Investment Policy and any comments prior to submission to the City Council for their consideration. The Investment Policy shall be adopted by resolution of the City Council annually before the end of June of each year.

CITY OF LA QUINTA
SUMMARY OF PERMISSIBLE DEPOSITS AND INVESTMENTS

Appendix A

The City Treasurer will be permitted to invest in the following types of investments subject to the maximum percentage allocation limits and bid process requirements. All maturities must be less than or equal to the maximum maturity allowed.

Bid Process	Permissible Deposits and Investments	City Maximum Allocation (Footnote 1)	State Maximum Allocation	City Restrictions	City Maximum Maturity	Credit Quality
			Surplus Funds			
1	Checking & Savings Accounts (FDIC Insured) & Sweep Accounts	85% Portfolio	100% Portfolio	Sweep Account: U.S. Treasuries and/or GSE's	Current/On Demand	FDIC Insured
2	Interest bearing active bank deposits – non FDIC insured collateralized by 110% of eligible securities	60% Portfolio	100% Portfolio	\$40,000,000 per bank	Current /on Demand	Non-FDIC Insured
2	Certificate of Deposit	60% Portfolio	100% Portfolio	<= \$250,000 including interest per institution	5 years	FDIC Insured
2	Negotiable Certificate of Deposit	30% Portfolio	100% Portfolio	<= \$250,000 including interest per institution	5 years	FDIC Insured
3	U.S. Treasury Bills, Notes and Bonds, and Government National Mortgage Association (GNMA) securities	100% Portfolio	100% Portfolio	<=\$30,000,000 maturing 3-5 Yrs.	3 years	
3	U.S. Government Agency Securities and Federal Government Securities (except collateralized mortgage obligations (CMO's) or structured notes which contain embedded rate options): - Federal National Mortgage Association (FNMA) - Federal Home Loan Bank Notes & Bonds (FHLB) - Federal Farm Credit Bank (FFCB) - Federal Home Loan Mortgage Corporation (FHLMC)	\$20,000,000 \$25,000,000 \$30,000,000 \$20,000,000	100% Portfolio		5 years 5 years 5 years 5 years	
3	Prime Commercial Paper including Temporary Liquidity Guarantee Program (TLGP)	15% Portfolio	25% Portfolio 270 Days	\$5,000,000 per issuer maximum	90 days	S&P (A-1) Moody's (P-1)
4	Local Agency Investment Fund (LAIF)	\$50,000,000	30% Portfolio	\$50,000,000 per account	Current/On Demand	
5	Money market mutual funds regulated by the SEC that consist only of US Treasury Securities or GSE's and maintain a par value of \$1 per share	20% Portfolio	20% Portfolio	Maintain \$1 per share par value	Current / On Demand	Rated AAA by 2 of 3 agencies; assets>=\$500 million; SEC reg'd >5 Yrs.
6	Corporate Notes	10% Portfolio	30% Portfolio	\$5,000,000 max per issuer	3 years	S & P rated AA or better
6	Corporate Notes - Temporary Liquidity Guarantee Program (TLGP)	20% Portfolio	30% Portfolio	\$10,000,000 max per issuer	3 years	S&P rated AA or better.
7	Professionally Managed Account	10% Portfolio	100% Portfolio	Requires Approved RFP	3 years	SEC Reg'd; E&O, Fidelity Insured
8	Local Agency Bonds/California Agency Obligations	100%	30%	<=^\$30,000,000	10 years	At least long term "A, A2, A" rating

Appendix A (continued)

Bid Process

- 1 Periodically conduct a bid process at least every four (4) years or sooner if considered necessary for banking and/or custodian services. Since banking services and custodian services are so closely related it is anticipated that the bid process would include the scope of both services.
- 2 The financial institutions can be either state or federally chartered and must be insured by the Federal Deposit Insurance Corporation (FDIC).
- 3 At least two bids from broker/dealers that qualify under Securities and Exchange Commission Rule 15C3-1 listed on the "Listing of Approved Financial Institutions" in the appendices.
- 4 City Council Approval.
- 5 Money Market mutual funds must comply with Government Code Section 53601(k). The fund must be registered by the SEC and must include marking the portfolio to market daily.
- 6 At least two bids from broker/dealers that qualify under Securities and Exchange Commission Rule 15C3-1 listed on the "Listing of Approved Financial Institutions" in the appendices.
- 7 The professional portfolio management firm (PPMF) will be approved by the City Council based upon the City Treasurer's recommendation pursuant to completion of a request for proposal (RFP) as outlined in the appendices. See also Footnote 2.
- 8 Initial offerings the Treasurer may purchase directly from Bond Underwriter, secondary issues follow bid process 3.

Footnote 1 The City has imposed a maximum limitation based upon the total portfolio of investments. Total portfolio investments are all cash and investments, including bond proceeds. In addition, the State has adopted limits on the investment of surplus funds.

Footnote 2 The City may engage the services of a professional portfolio management firm which may invest in Bankers Acceptances, Mutual Funds, and Asset Backed Securities not otherwise permissible under the City's Investment Policy.

Unauthorized Investments

The City Treasurer will not be permitted to invest in the following types of investments (see Footnote 2 and "State Code Permitted Deposits And Investments Not Authorized By The City's Investment Policy", below).

- Repurchase Agreements
- Bankers Acceptances
- Mutual Funds other than money market mutual funds
- Preferred and Common Stock
- State Indebtedness
- Asset Backed Securities
- Reverse Repurchase Agreements
- Derivatives

The above list of unauthorized deposits and investments is not meant to be all-inclusive. Only those deposits and investments listed in the "Permissible Deposits and Investments" section of the Policy are permissible.

City of La Quinta Municipal Code
Chapter 2.70

INVESTMENT ADVISORY BOARD PROVISIONS

Sections:

- 2.70.010** **General Rules Regarding Appointment.**
- 2.70.020** **Board meetings.**
- 2.70.030** **Board functions.**

2.70.010 General rules regarding appointment

- A. Except as set out below, see Chapter 2.06 for General Provisions.
- B. The Investment Advisory Board (the "board") is a standing board composed of five (5) members from the public that are appointed by city council.
- C. Applicants for the board should have a background in finance, preferably with knowledge and/or experience in markets, controls and accounting for securities. Background information will be requested and potential candidates must agree to a background check and verification.
- D. On an annual basis, in conjunction with the Political Reform Act disclosure statutes, or at any time if a change in circumstances warrants, each board member will provide the City Council with a disclosure statement which identifies any matters that have a bearing on the appropriateness of that member's service on the board. Such matters may include, but are not limited to, changes in employment, changes in residence, or changes in clients.
- E. To promote continuity, the expiration of the terms of the members of the board shall be staggered. The term of service is three years, with one or two terms expiring each year.

2.70.020 Board meetings.

The Board usually will meet monthly, but this schedule may be extended to quarterly meetings upon the concurrence of the Board and the City Council. The specific meeting dates will be determined by the Board Members and meetings may be called for on an as needed basis.

2.70.030 Board functions.

- A. The principal functions of the Board are: (1) review at least annually the City's Investment Policy and recommend appropriate changes; (2) review monthly Treasury Report and note compliance with the Investment Policy and adequacy of cash and investments for anticipated obligations; (3) receive and consider other reports provided by the City Treasurer; (4) meet with the independent auditor after completion of the annual audit of the City's financial statements, and receive and consider the auditor's comments on auditing procedures, internal controls, and findings for cash and investment activities, and; (5) serve as a resource for the City Treasurer on matters such as proposed investments, internal controls, use or change of financial institutions, custodians, brokers and dealers.
- B. The Board will report to the City Council after each meeting either in person or through correspondence at a regular City Council meeting.

City of La Quinta Municipal Code
Chapter 3.08

INVESTMENT OF MONEYS AND FUNDS

Sections:

3.08.010 Investment of city moneys and deposit of securities.

3.08.020 Authorized investments.

3.08.030 Sales of securities.

3.08.040 City bonds.

3.08.050 Reports.

3.08.060 Deposits of securities.

3.08.070 Trust fund administration.

3.08.010 Investment of city moneys and deposit of securities.

Pursuant to, and in accordance with, and to the extent allowed by, Sections 53607 and 53608 of the Government Code, the authority to invest and reinvest moneys of the city, to sell or exchange securities, and to deposit them and provide for their safekeeping, is delegated to the city treasurer. (Ord. 2 § 1 (part), 1982)

3.08.020 Authorized investments.

Pursuant to the delegation of authority in Section 3.08.010, the city treasurer is authorized to purchase, at their original sale or after they have been issued, securities which are permissible investments under any provision of state law relating to the investing of general city funds, including but not limited to Sections 53601 and 53635 of the Government Code, as said sections now read or may hereafter be amended, from moneys in his custody which are not required for the immediate necessities of the city and as he may deem wise and expedient, and to sell or exchange for other eligible securities and reinvest the proceeds of the securities so purchased. (Ord. 2 § 1 (part), 1982)

3.08.030 Sales of Securities.

From time to time the city treasurer shall sell the securities in which city moneys have been invested pursuant to this chapter, so that the proceeds may, as appropriate, be applied to the purchase for which the original purchase money may have been designated or placed in the city treasury. (Ord.2 § 1 (part),

3.08.040 City bonds.

Bonds issued by the city and purchased pursuant to this chapter may be cancelled either in satisfaction of sinking fund obligations or otherwise if proper and appropriate; provided, however, that the bonds may be held uncanceled and while so held may be resold. (Ord. 2 § 1 (part), 1982)

3.08.050 Reports.

The city treasurer shall make a monthly report to the city council of all investments made pursuant to the authority delegated in this chapter. (Ord. 2 § 1 (part), 1982)

3.08.060 Deposits of securities.

Pursuant to the delegation of authority in Section 3.08.010, the city treasurer is authorized to deposit for safekeeping, the securities in which city moneys have been invested pursuant to this chapter, in any institution or depository authorized by the terms of any state law, including but not limited to Section 53608 of the Government Code as it now reads or may hereafter be amended. In accordance with said section, the city treasurer shall take from the institution or depository a receipt for the securities so deposited and shall not be responsible for the securities delivered to and receipted for by the institution or depository until they are withdrawn therefrom by the city treasurer. (Ord. 2 § 1 (part), 1982)

3.08.070 Trust fund administration.

Any departmental trust fund established by the city council pursuant to Section 36523 of the Government Code shall be administered by the city treasurer in accordance with Section 36523 and 26524 of the Government code and any other applicable provisions of law. (Ord. 2 § 1 (part), 1982)

Appendix D

SEGREGATION OF MAJOR INVESTMENT RESPONSIBILITIES

<u>Function</u>	<u>Responsible Parties</u>
Develop and Recommend Modifications to City's Formal Investment Policy	Investment Advisory Board and City Treasurer
Review City's Investment Policy and Recommend City Council Action	City Manager and City Attorney
Adopt Formal Investment Policy	City Council
Implement Formal Investment Policy	City Treasurer
Review Financial Institutions & Select Investments	City Treasurer
Acknowledge Investment Selections	City Manager or his/her designee
Execute Investment transactions	City Treasurer or City Manager
Confirm Wires (if applicable)	Accounting Manager or Financial Services Assistant
Record Investment Transactions in City's Accounting Records	Accounting Manager or Financial Services Assistant
Investment Verification (match broker confirmation to City investment records)	City Treasurer and Financial Services Assistant
Reconcile Investment Records to Accounting Records and Bank Statements	Financial Services Assistant
Reconcile Investment Records to Treasurers Report of Investments	Accounting Manager
Security of Investments at City	Accounting Manager or Senior Secretary
Security of Investments outside City	Third Party Custodian
Review Internal Control Procedures	External Auditor

Appendix E

LISTING OF APPROVED FINANCIAL INSTITUTIONS

- 1. Banking Services - Wells Fargo Bank, Government Services, Los Angeles, CA (Banking Services)
Rabobank N.A., Government Banking Group, Roseville, CA (Collateralized Bank Deposits)
- 2. Custodian Services - Bank of New York/Mellon
- 3. Deferred Compensation - International City/County Management Association Retirement Corporation
- 4. Broker/Dealer Services - Banc of America Securities/Merrill Lynch
Morgan Stanley
CitiGroup
First Empire Securities
- 5. Government Pool - State of California Local Agency Investment Fund
- 6. Bond Trustees - 1996 Lease Revenue Bonds – US Bank
1998 RDA Project Area 1&2 – US Bank
2001 RDA Project Area 1 – US Bank
2002 RDA Project Area 1 – US Bank
2003 RDA Project Area 1 – US Bank
2004 Local Agency Rev – US Bank
2011 RDA Project Area 2 – US Bank
2011 Fin Auth Housing 1&2 – US Bank
2013 Successor Agency – US Bank
Assessment Districts – US Bank

No Changes to this listing may be made without City Council approval

BROKER/DEALER QUESTIONNAIRE AND CERTIFICATION

1. Name of Firm: _____
2. Address: _____
3. Telephone: (____) _____ (____) _____
4. Broker's Representative to the City (attach resume):
Name: _____
Title: _____
Telephone: (____) _____
5. Manager/Partner-in-charge (attach resume):
Name: _____
Title: _____
Telephone: _____
6. List all personnel who will be trading with or quoting securities to City employees (attach resume)
Name: _____
Title: _____
Telephone: (____) _____ (____) _____
7. Which of the above personnel have read the City's Investment Policy?

8. Which instruments are offered regularly by your local office? (Must equal 100%)

_____ % U.S. Treasuries	_____ % Repos
_____ % BA's	_____ % Reverse Repos
_____ % Commercial Paper	_____ % CMO's
_____ % CD's	_____ % Derivatives
_____ % Mutual Funds	_____ % Stocks/Equities
_____ % Agencies (specify):	_____ % Other (specify):
_____	_____
_____	_____
_____	_____
9. References -- Please identify your most directly comparable public sector clients in our geographical area.

Entity _____	Entity _____
Contact _____	Contact _____

Telephone () _____ Telephone () _____
Client Since _____ Client Since _____

10. Have any of your clients ever sustained a loss on a securities transaction arising from a misunderstanding or misrepresentation of the risk characteristics of the instrument? If so, explain.

11. Has your firm or your local office ever been subject to a regulatory or state/ federal agency investigation for alleged improper, fraudulent, disreputable or unfair activities related to the sale of securities? Have any of your employees been so investigated? If so, explain.

12. Has a client ever claimed in writing that you were responsible for an investment loss? Yes _____ No _____ If yes, please provide action taken _____

Has a client ever claimed in writing that your firm was responsible for an investment loss? Yes _____ No _____ If yes, please provide action taken _____

Do you have any current or pending complaints that are unreported to FINRA? Yes _____ No _____ If yes, please provide action taken _____

Does your firm have any current, or pending complaints that are unreported to FINRA? Yes _____ No _____ If yes, please provide action taken _____

13. Explain your clearing and safekeeping procedures, custody and delivery process.

Who audits these fiduciary responsibilities? _____

Latest Audit Report Date _____

14. How many and what percentage of your transactions failed?
 Last month? _____% \$ _____
 Last year? _____% \$ _____
15. Describe the method your firm would use to establish capital trading limits for the City of La Quinta. _____

16. Is your firm a member in the S.I.P.C. insurance program? Yes _____ No _____
 If yes, explain primary and excess coverage and carriers. _____

17. What portfolio information, if any, do you require from your clients? _____

18. What reports and transaction confirmations or any other research publications will the City receive? _____

19. Does your firm offer investment training to your clients? Yes _____ No _____
20. Does your firm have professional liability insurance? Yes _____ No _____
 If yes, please provide the insurance carrier, limits and expiration date. _____

21. Please list your FINRA/NASD Registration Number _____
22. Do you have any relatives who work at the City of La Quinta?
 Yes _____ No _____ If yes, Name and Department _____
23. Do you maintain an office in California? Yes _____ No _____
24. Do you maintain an office in La Quinta or Riverside County? Yes _____ No _____
25. Please enclose the following:
 ▶ Latest audited financial statements;
 ▶ Samples of reports, transaction confirmations and any other research/publications the City will receive;
 ▶ Samples of research reports and/or publications that your firm regularly provides to clients; and
 ▶ Complete schedule of fees and charges for various transactions.

CERTIFICATION

I hereby certify that I have personally read the Statement of Investment Policy of the City of La Quinta, and have implemented reasonable procedures and a system of controls designed to preclude imprudent investment activities arising out of transactions conducted between our firm and the City of La Quinta. All sales personnel will be routinely informed of the City's investment objectives, horizons, outlooks, strategies and risk constraints whenever we are so advised by the City. We pledge to exercise due diligence in informing the City of La Quinta of all foreseeable risks associated with financial transactions conducted with our firm.

By signing this document the City of La Quinta is authorized to conduct any and all background checks.

Under penalties of perjury, the responses to this questionnaire are true and accurate to the best of my knowledge.

Broker Representative _____
Date _____ Title _____
Sales Manager and/or Managing Partner* _____
Date _____ Title _____

**Request for Proposals
Professional Portfolio Management Firm
City of La Quinta, CA**

The City of La Quinta, CA is soliciting Requests for Proposals (RFP) from interested firms for the provision of a discretionary investment management services for City of La Quinta, CA. The portfolio to be managed of the invested assets is will be approximately 10% of the City's investment portfolio and will be invested between 0 – 3 years.

The investment of City of La Quinta, CA's funds is guided by the applicable State statutes and the City of La Quinta, CA's investment policy. A copy of the investment policy is attached for your information.

Questions regarding this RFP should be directed to:

Name:	Rita Conrad
Title:	Finance Director/Treasurer
City of:	La Quinta, CA
Address:	78-495 Calle Tampico
City, State, Zip Code:	La Quinta, CA 92253
Phone Number:	(760)777-7150

I. CRITERIA FOR EVALUATION AND SELECTION

- Experience of the firm in providing services to public sector entities of similar size and with similar investment objectives;
- Professional experience and qualifications of the individuals assigned to the account;
- Portfolio management resources, investment philosophy and approach;
- Responsiveness to the RFP, communicating an understanding of the overall program and services required;
- Reporting capabilities;
- Fees.

II. SELECTION TIMETABLE

- A. [Month, Day and Year] Proposals due by [Time] PST.
- B. [Month, Day and Year] Proposals evaluated: to be determined
- C. [Month, Day and Year] [City of La Quinta, CA] [Board/Council] approves selection and awards contract.

III. FORMAT FOR PROPOSALS

Please format your response to this RFP in the following manner:

- A. Organization

1. Describe your organization, date founded, ownership and other business affiliations. Provide number and location of affiliated offices. Specify the number of years your organization has provided investment management service.
2. Describe your firm's revenue sources (e.g., investment management, institutional research, etc.) and comment on your firm's financial condition.
3. Within the past three years, have there been any significant developments in your organization (e.g., changes in ownership, new business ventures)? Do you expect any changes in the near future?
4. Describe any U.S. Securities and Exchange Commission (SEC) censures or litigation involving your organization, any officer, or employee at any time in the last ten years.
5. Describe the firm's fiduciary liability and/or errors and omissions insurance coverage. Include dollar amount of coverage.

B. Personnel

1. Identify the number of professionals employed by your firm by classification.
2. Provide an organization chart showing function, positions, and titles of all the professionals in your organization.
3. Provide biographical information on investment professionals that will be involved in the decision-making process for our portfolio, including number of years at your firm. Identify the person who will be the primary portfolio manager assigned to the account.
4. Describe your firm's compensation policies for investment professionals and address any incentive compensation programs.

C. Assets Under Management

1. Summarize your institutional investment management asset totals by category for your latest reporting period in the following table:

	<i>Number of Clients</i>	<i>Operating Funds</i>	<i>Number of Clients</i>	<i>Other Restrictive Funds</i>
Governmental	_____	\$ _____	_____	\$ _____
Governmental Pension	_____	\$ _____	N/A	N/A
Non Governmental Pension	_____	\$ _____	N/A	N/A

Corporate	_____	\$ _____	N/A	N/A
High Net Worth Client	_____	\$ _____	N/A	N/A
Endowmental/Foundation	_____	\$ _____	N/A	N/A

2. Provide the number of separate accounts whose portfolios consist of operating funds.
3. List in the following table the percentage by market value of aggregate assets under all governmental accounts under management for your latest reporting period:

Type of Asset	Percent by Market Value
U.S. Treasury securities	_____
Federal Agency obligations	_____
Corporate securities rated AAA-AA	_____
Corporate securities rated A	_____
Corporate securities rated BBB or lower	_____
Other (specify _____)	_____

4. Describe the procedures that your firm has in place to address the potential or actual credit downgrade of an issuer and to disclose and advise a client of the situation.
5. Provide data on account/asset growth over the past five years. Indicate the number of government accounts gained and the number of government accounts lost.
6. List your five governmental largest clients. Identify those that are exclusively operating fund relationships and/or those that are other relationships (e.g., bond fund, retirement fund).
7. Provide a copy of the firm's Form ADV, Parts I and II (including all schedules).
8. Provide proof of State of California Registration, if your firm is not eligible for SEC registration.
9. Provide a sample contract for services.

D. Philosophy/Approach

1. Describe your firm's investment philosophy for public clients, including your firm's philosophy regarding average duration, maturity, investment types, credit quality, and yield.
2. Describe in detail your investment process, as you would apply it to City of La Quinta, CA's portfolio.
3. What are the primary strategies for adding value to portfolios?
4. Describe the process you would recommend for establishing the investment objectives and constraints for this account.
5. Describe in detail your process of credit risk management, including how you analyze credit quality, monitor credits on an ongoing basis, and report credit to governmental accounts.
6. Describe your firm's trading methodology.
7. Describe your firm's decision-making process in terms of structure, committees, membership, meeting frequency, responsibilities, integration of research ideas, and portfolio management.
8. Describe your research capabilities as they would pertain to governmental accounts. What types of analysis do you use?
9. Describe the firm's approach to managing relationships with the broker-dealer community.

E. Portfolio Management

1. Are portfolios managed by teams or by one individual?
2. What is the average number of accounts handled per manager?
3. Which professional staff member will be the primary client contact for City of La Quinta, CA?
4. How frequently are you willing to meet with us?
5. Describe procedures used to ensure that portfolios comply with client investment objectives, policies, and bond resolutions.

F. Fees Charged

1. Please include a copy of your firm's fee schedule applicable to this RFP.
2. Identify any expenses that would not be covered through this fee structure and would be required in order to implement the firm's program.

3. Is there a minimum annual fee?

G. Performance Reporting

1. Please report on all accounts under \$100 million.
2. Please provide performance history for governmental accounts for the last five years.
3. Please provide risk measurements for governmental accounts for the last five years.
4. Indicate whether your returns are calculated and compiled in accordance with the Association for Investment Management and Research (AIMR/CFA Institute) standards.
5. Do your reports conform to the State of California reporting standards? Are you willing to customize your reports to meet our specifications?
6. How will you notify us of investment transactions?
7. Are confirmations of investment transactions sent directly by the broker/dealer to the client?
8. Do your reports include rating information on investments which is required by GASB 40?

H. References

Provide a list of at least five (5) client references in California. References should be public agencies with portfolio size and investment objectives similar to City of La Quinta, CA. Include length of time managing the assets, contact name, and phone number.

I. Insurance Requirements

Exhibit A defines the insurance requirements that will need to be met prior to the [Board/Council]'s approval of any agreement for services.

J. Submittal of proposals

1. Seven (7) copies of the proposal shall be submitted in a sealed envelope bearing the caption RFP for (City of La Quinta, CA) and addressed to:

City of La Quinta, CA
78-495 Calle Tampico
La Quinta, CA 92253
Attention: Rita Conrad, Finance Director/Treasurer

2. Proposal must be received no later than [Time] PST on [Month, Day, and Year].
3. Proposals should be verified before submission. The City of La Quinta, CA shall not be responsible for errors or omissions on the part of the respondent in preparation of a proposal. The City of La Quinta, CA reserves the right to reject any and all proposals, to waive any irregularities, or informalities in the proposals, and to negotiate modifications to any proposal.

Enclosures: Investment Policy
 Treasurers Report

Appendix H

City of La Quinta
Permissible Investment Chart – Professional Portfolio Management Firm

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
California Government Code Section	Investment Category	Maximum Maturity	Authorized Investment Limits (% of Portfolio)	Credit Rating Limits	Comments	Allowed per City Policy	Allowed per Professional Portfolio Management Firm
53601(a)	Local Agency Bonds	5 Years	None	None		No	No
53601(c)	State of California Obligations	5 Years	None	None		No	No
53601(d)	CA Local Agency Obligations	5 Years	None	Multiple		No	No
53601(i)	Repurchase Agreements	1 Year	None	None		No	No
53601(i)	Reverse Repurchase Agreements	92 Days	20% of the base value of the portfolio	None		No	No
53601(i)	Securities Lending Agreements	92 Days	20% of the base value of the portfolio	None		No	No
53684	County Pooled Investments	None	None	None		No	No
53632	Interest bearing active deposits	None	None	None	Collateralized 110%	Yes	Yes
53601(f)	Bankers Acceptances	180 Days	40%	None	"AA" or better	No	Yes
53601(h)	Negotiable CD's	5 Years	30%	None		Yes	Yes
53601(k)	Mutual Funds	None	20%	Multiple		No	Yes
53601(n)	Asset Backed Securities	5 Years	20%	AA		No	Yes
	Cash and Equivalents	None	None	None		Yes	Yes
16429.1	LAIF	None	None	None		Yes	No
53601(b)	US Treasuries	5 Years	None	None		Yes	Yes
53601(e)	US Agencies	5 Years	None	None		Yes	Yes
53601(g), 53635	Commercial Paper	270 Days	25% of portfolio	A-1 / P-1 / F-1		Yes	Yes
53601(k)	Medium Term Notes	5 Years	30%	A		Yes	Yes
	Money Market Mutual Funds	None	20%	Multiple		Yes	Yes
53601(m)	Time Deposits	5 Years	None	None		Yes	Yes
	Collateralized Bank Deposits (including non-negotiable CD's)	5 Years	None	None		Yes	Yes

Source of Columns (1) through (5) - Investment: Investment Portfolio Reporting Practices CA Debt and Investment Advisory Commission.

Note: The Professional Portfolio management Firm (PPMF) is not required to adhere to the City's buy and hold policy and does not need City Manager or City Treasurer approval to make permissible deposits and investments as detailed in column (8).

Investment Management Process and Risk

Except as provided for in Section 27000.3, Government Code Section 53600.3 declares as a trustee each person, treasurer, or governing body authorized to make investment decisions on behalf of local agencies. As trustees are subject to the prudent investor standard. These persons shall act with care, skill, prudence, and diligence under the circumstances then prevailing when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds. Section 53600.5 further stipulates that the primary objective of any person investing public funds is to safeguard principal; secondly, to meet liquidity needs of the depositor; and lastly, to achieve a return or yield on invested funds (Government Code Section 27000.5 specifies the same objectives for county treasurers and board of supervisors).

Risk is inherent throughout the investment process. There is investment risk associated with any investment activity and opportunity risk related to inactivity. Market risk is derived from exposure to overall changes in the general level of interest rates while credit risk is the risk of loss due to the failure of the insurer of a security. The market value of a security varies inversely with the level of interest rates. If an investor is required to sell an investment with a five percent yield in a comparable seven percent rate environment, that security will be sold at a loss. The magnitude of that loss will depend on the amount of time until maturity.

Purchasing certain allowable securities with a maturity of greater than five years requires approval of the governing board (see Government Code Section 53601). Part of that approval process involves assessing and disclosing the risk and possible volatility of longer-term investments

Another element of market risk is liquidity risk. Instruments with unique call features or special structures, or those issued by little known companies, are examples of "story bonds" and are often thinly traded. Their uniqueness often makes finding prospective buyers in a secondary market more difficult and, consequently, the securities' marketability and price are discounted. However, under certain market conditions, gains are also possible with these types of securities.

Default risk represents the possibility that the borrower may be unable to repay the obligation as scheduled. Generally, securities issued by the federal government and its agencies are considered the most secure, while securities issued by private corporations or negotiable certificates of deposit issued by commercial banks have a greater degree of risk. Securities with additional credit enhancements, such as bankers acceptances, collateralized repurchase agreements and collateralized bank deposits are somewhere between the two on the risk spectrum.

The vast majority of portfolios are managed within a buy and hold policy. Investments are purchased with the intent and capacity to hold that security until maturity. At times, market forces or operations may dictate swapping one security for another or selling a security before maturity. Continuous analysis and fine tuning of the investment portfolio are considered prudent investment management.

The Government Code contains specific provisions regarding the types of investments and practices permitted after considering the broad requirement of preserving principal and maintaining liquidity before seeking yield. These provisions are intended to promote the use of reliable, diverse, and safe investment instruments to better ensure a prudently managed portfolio worthy of public trust.

GLOSSARY

(Adopted from the Municipal Treasurers Association)

The purpose of this glossary is to provide the reader of the City of La Quinta investment policies with a better understanding of financial terms used in municipal investing.

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

ASKED: The price at which securities are offered.

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

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

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

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

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

COMMERCIAL PAPER: Short-term unsecured promissory notes issued by a corporation to raise working capital. These negotiable instruments are purchased at a discount to par value or at par value with interest bearing. Commercial paper is issued by corporations such as General Motors Acceptance Corporation, IBM, Bank America, etc.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the City of La Quinta. 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.

CONDUIT FINANCING: A form of Financing in which a government or a government agency lends its name to a bond issue, although it is acting only as a conduit between a specific project and bond holders. The bond holders can look only to the revenues from the project being financed for repayment and not to the government or agency whose name appears on the bond.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

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

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: (1) 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, or (2) 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&L's, small business firms, students, farmers, farm cooperatives, and exporters.

1. FNMA's (Federal National Mortgage Association) - Like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.
2. FHLB's (Federal Home Loan Bank Notes and Bonds) - Issued by the Federal Home Loan Bank System to help finance the housing industry. The notes and bonds provide liquidity and home mortgage credit to savings and loan associations, mutual savings banks, cooperative banks, insurance companies, and mortgage-lending institutions. They are issued irregularly for various maturities. The minimum denomination is \$5,000. The notes are issued with maturities of less than one year and interest is paid at maturity.

3. FLB's (Federal Land Bank Bonds) - Long-term mortgage credit provided to farmers by Federal Land Banks. These bonds are issued at irregular times for various maturities ranging from a few months to ten years. The minimum denomination is \$1,000. They carry semi-annual coupons. Interest is calculated on a 360-day, 30 day month basis.
4. FFCB's (Federal Farm Credit Bank) - Debt instruments used to finance the short and intermediate term needs of farmers and the national agricultural industry. They are issued monthly with three- and six-month maturities. The FFCB issues larger issues (one to ten year) on a periodic basis. These issues are highly liquid.
5. FICB's (Federal Intermediate Credit Bank Debentures) - Loans to lending institutions used to finance the short-term and intermediate needs of farmers, such as seasonal production. They are usually issued monthly in minimum denominations of \$3,000 with a nine-month maturity. Interest is payable at maturity and is calculated on a 360-day, 30-day month basis.
6. FHLMC's (Federal Home Loan Mortgage Corporation) - a government sponsored entity established in 1970 to provide a secondary market for conventional home mortgages. Mortgages are purchased solely from the Federal Home Loan Bank System member lending institutions whose deposits are insured by agencies of the United States Government. They are issued for various maturities and in minimum denominations of \$10,000. Principal and interest is paid monthly. Other federal agency issues are Small Business Administration notes (SBA's), Government National Mortgage Association notes (GNMA's), Tennessee Valley Authority notes (TVA's), and Student Loan Association notes (SALLIE-MAE's).

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per deposit through December 31, 2013.

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

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, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FMHM mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

LAIF (Local Agency Investment Fund) - A special fund in the State Treasury which local agencies may use to deposit funds for investment. There is no minimum investment period and the minimum transaction is \$5,000, in multiples of \$1,000 above that, with a maximum balance of

\$50,000,000 for any agency. The City is restricted to a maximum of ten transactions per month. It offers high liquidity because deposits can be converted to cash in 24 hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share basis determined by the amounts deposited and the length of time they are deposited. Interest is paid quarterly. The State retains an amount for reasonable costs of making the investments, not to exceed one-half of one percent of the earnings.

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

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

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

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

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

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

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve

Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of all cash and securities under the direction of the City Treasurer, including Bond Proceeds.

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

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

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

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

REVERSE REPURCHASE AGREEMENTS (RRP or RevRepo) - A holder of securities sells these securities to an investor with an agreement to

repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RRP extensively to finance their positions. Exception: When the Fed is said to be doing RRP, it is lending money that is increasing bank reserves.

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

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

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

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

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, and derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

SURPLUS FUNDS: Section 53601 of the California Government Code defines surplus funds as any money not required for immediate necessities of the local agency. The City has defined immediate necessities to be payment due within one week.

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: Long-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 10 years.

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

UNIFORM PRUDENT INVESTOR ACT: The State of California has adopted this Act. The Act contains the following sections: duty of care, diversification, review of assets, costs, compliance determinations, delegation of investments, terms of prudent investor rule, and application.

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

