

# **CITY OF PALM SPRINGS**

**2019-2020**

## **INVESTMENT POLICY**



*Adopted January 9, 2020*

# **CITY OF PALM SPRINGS INVESTMENT POLICY AND GUIDELINES**

## **1.0 Purpose:**

The purpose of this Investment Policy (Policy) is to set forth the investment and operational guidelines for the management and investment of the public funds of the City of Palm Springs, California. The Policy requires adoption by, and can only be changed by, a majority vote of the City Council.

The Policy is designed to ensure the prudent management of public funds, the availability of operating and capital funds when needed, and an investment total return that is comparable to established benchmarks, as appropriate.

A copy of this statement will be provided to all investment dealers and investment managers doing business with the City of Palm Springs, and will be provided to other interested parties on request. Receipt of this policy, including confirmation that it has been reviewed by individuals working directly with the City's investment account will be received prior to any organization providing investment services to the City of Palm Springs.

## **2.0 Policy:**

The investment Policy and practices of the City of Palm Springs are based upon state law and prudent money management consistent with City policies. The primary goals of these practices are:

- A. To ensure compliance with all Federal, State, and local laws governing the investment of public funds under the control of the Director of Finance/Treasurer.
- B. To protect the principal of monies entrusted to the City's Finance Department.
- C. Achieve a reasonable rate of return within the parameters of prudent risk management while minimizing the potential for capital losses arising from market changes or issuer default.

## **3.0 Scope:**

This Investment Policy applies to all financial assets of the City of Palm Springs. These funds are accounted for in the City's Comprehensive Annual Financial Report.

The Director of Finance/Treasurer is responsible for investing the unexpended cash in the City Treasury for all funds, except for the employee's retirement funds or deferred compensation accounts, which are administered separately, and those funds which are managed separately by trustees appointed under indenture agreements.

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These funds include, but are not limited to:

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Debt Service Fund
- Enterprise Funds
- Internal Service Funds
- Trust and Agency Funds
- Bond Proceeds
- Any new fund created by the legislative body, unless specifically exempted

This Investment Policy applies to all transactions involving the financial assets and related activity of the foregoing funds.

### **4.0 Prudence:**

The standard of prudence to be used by the Director of Finance/Treasurer shall be the “prudent investor standard.” This shall be applied in the context of managing an overall portfolio. The “prudent investor standard” shall be applied to the City, pursuant to California Government Code Section 53600.3 which provides, in pertinent part:

“ ... all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency....”

### **4.1 Personal Responsibility:**

The Director of Finance/Treasurer, as the investment officer acting in accordance with written procedures and the Investment Policy and exercising due diligence, shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported to the City Council in a timely fashion and appropriate action is taken to control adverse developments.

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**5.0 Objective:**

Consistent with this aim, investments are made under the terms and conditions of California Government Code Section 53600, et seq. Criteria for selecting investments and the absolute order of priority are:

**Safety**

Safety of principal is the foremost objective of the investment program. Investments of the City of Palm Springs shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

**Liquidity**

The City of Palm Springs's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated and to maintain compliance with any indenture agreement, as applicable. Liquidity is essential to the safety of principal.

**Return on Investments**

The City of Palm Springs's investment portfolio shall be designed with the objective of attaining a market-average rate of return throughout budgetary and economic cycles (market interest rates), within the City's Investment Policy's risk parameters and the City's cash flow needs. See also Section 16.1.

**6.0 Delegation of Authority:**

The Director of Finance/Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. The responsibility for the day-to-day investment of City funds may be delegated to other Department of Finance staff members as determined by the Director of Finance/Treasurer.

Procedures should include references to: ACH/wire transfer agreements, and collateral/depository agreements, as appropriate. 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 policy and the procedures established by the Director of Finance/Treasurer. The Director of Finance/Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. Under the provisions of California Government Code 53600.3, the Director of Finance/Treasurer is a trustee

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and a fiduciary subject to the prudent investor standard.

The City may engage the services of one or more external investment managers to assist in the management of the City's investment portfolio in a manner consistent with the City's Investment Policy and objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940.

**7.0 Ethics and Conflicts of Interest:**

Consistent with state statutes and regulations and the City's local policies relating to conflicts of interest, all persons involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officers are required to file annual disclosure statements as required for "public officials who manage public investments" [as defined and required by the Political Reform Act and related regulations, including Government Code Sections 81000, et seq., and the rules, regulations and guidelines promulgated by California's Fair Political Practices Commission (FPPC)].

**8.0 Authorized Financial Dealers and Institutions:**

The City's Director of Finance/Treasurer will maintain a list of the financial institutions and brokers/dealers authorized to provide investment and depository services and will perform an annual review of the financial condition and registrations of qualified bidders and require annual audited financial statements to be on file for each company. The City shall annually send a copy of the current Investment Policy to all financial institutions and brokers/dealers approved to do business with the City.

If the City uses an external investment adviser, the adviser is authorized to enter into transactions with its own approved Broker-Dealer list on behalf of the City. The adviser shall perform all due diligence for all brokers/dealers on its approved list. The external investment adviser shall annually provide the City its approved Broker-Dealer list so that the Director of Finance/Treasurer may conduct their own review.

As far as possible, all money belonging to, or in the custody of, a local agency, including money paid to the City's Director of Finance/Treasurer or other official to pay the principal, interest, or penalties of bonds, shall be deposited for safekeeping in state or national banks, savings associations, federal associations, credit unions, or federally insured industrial loan companies in this state selected by the City's Director of Finance/Treasurer; or may be invested in the investments set forth in Section 9.0. To be eligible to receive local agency money, a bank, savings association, federal association, or federally insured industrial loan company shall have received an overall rating of not

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less than “satisfactory” in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California’s communities, including low- and moderate-income neighborhoods.

To provide for the optimum yield in the investment of City funds, the City’s investment procedures shall encourage competitive bidding on transactions from approved brokers/dealers. In order to be approved by the City, the dealer must meet the following criteria: (i) the dealer must be a “primary” dealer or regional dealer that qualifies under Securities and Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule); (ii) the dealer’s institution must have an office in California; (iii) the dealer must be experienced in institutional trading practices and familiar with the California Government Code as related to investments appropriate for the City; and (iv) all other applicable criteria, as may be established in the investment procedures. All brokers/dealers and financial institutions who desire to become qualified bidders for investment transactions must submit a “Broker/Dealer Application” and related documents relative to eligibility including a current audited annual financial statement, U4 form for the broker, proof of state registration and proof of National Association of Securities Dealers certification. The City’s Director of Finance/Treasurer shall have also have received a signed Certification from the firm of having read and understood the City’s Investment Policy and agreeing to comply with the Investment Policy. The City’s Director of Finance/Treasurer shall determine if they are adequately capitalized (i.e. qualifies under SEC Rule 15C3-1, Uniform Net Capital Rule and five years of operation). If the City uses an external investment advisor, the investment advisor will use the firm’s best execution procedures, and must retain documentation of competitive pricing execution on each transaction and provide such documentation to the Director of Finance/Treasurer upon request.

**9.0 Cash and Investment Instruments:**

City active and inactive deposits may be kept in checking accounts and savings accounts at financial institutions as identified in California State Government Code Section 53648 provided that they are adequately secured with proper collateral as prescribed by Government Code Sections 53656 and/or 53658. Funds may be automatically swept from the above accounts into investment instruments provided those investment instruments are allowable investments as listed in this section, and limited to the percentage of the portfolio prescribed for each investment instrument.

Allowable investments for the portfolio of the City of Palm Springs are limited by California State Government Code Sections 53601 et seq.; and Section 53635. They are further restricted by the Director of Finance/Treasurer’s investment strategy. Limitations on percentage of portfolio, single issue or issuer, credit quality, diversification, and maturity apply at the time of purchase. Purchased securities may not exceed five-year maturities. Exceptions can only be approved by the City Council. The investment instruments and

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percentage of the portfolio permitted by this policy are described below. Investments not specifically listed below are deemed inappropriate and prohibited.

**OBLIGATIONS OF THE UNITED STATES TREASURY**

United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

- Maximum Maturity: 5 Years
- Maximum Percentage of Portfolio: 100%

**BONDS ISSUED BY THE CITY OR ANY LOCAL AGENCY WITHIN THE STATE OF CALIFORNIA OR THE STATE OF CALIFORNIA**

Registered California warrants, treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the state or by a department, board, agency, or authority of the state.

Bonds, notes, warrants or other evidences of indebtedness of any local agency within California including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency. Investments under this section must be rated "A" or better by a nationally recognized rating service.

- Maximum Percentage of Portfolio: 15%
- Maximum Exposure: 5% per Issuer.

**FEDERAL AGENCIES**

Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal Home Loan Bank, Federal Farm Credit Bank, the Tennessee Valley Authority, or in obligations, participations, or other instruments of, or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or in guaranteed portions of Small Business Administration notes; or in obligations, participations, or other instruments of, or issued by, a federal agency or United States government-sponsored enterprise.

- Maximum Maturity: 5 Years
- Maximum Percentage of Portfolio: 60%

**BANKERS' ACCEPTANCES**

Bills of exchange or time drafts drawn on and accepted by a commercial bank, typically

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created from a letter of credit issued in a foreign trade transaction. Eligibility is limited to U.S. banking corporations.

- Maximum Maturity: 180 Days
- Maximum Percentage of Portfolio: 20%
- Maximum Exposure: 5% per bank
- Credit Requirement: A-1, P-1, F-1 (Per S&P/ Moody's /Fitch)

### COMMERCIAL PAPER

Commercial Paper ranked A-1, P-1, F-1 by one of the major rating agencies and issued by a domestic corporation having assets in excess of \$500,000,000 and having an "A" or better rating on its long term debentures, if any, as determined by a recognized national rating agency.

- Maximum Maturity: 270 Days
- Maximum Percentage of Portfolio: 15%
- Maximum Exposure: 5% per Issuer
- Credit Requirement A-1, P-1, F-1 (Per S&P/ Moody's / Fitch)

### NEGOTIABLE CERTIFICATES OF DEPOSIT

Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a state-licensed branch of a foreign bank. Securities in this category exceeding federal deposit insurance limits shall be rated or issued by institutions which have long-term debt obligations rated "A" (or the equivalent) or better and short-term debt obligations, if any, rated "A-1" (or the equivalent) or better by at least two nationally recognized statistical rating agencies.

- Maximum Maturity: 5 Years
- Maximum Percentage of Portfolio: 30%
- Maximum Exposure: 5% per Issuer
- FDIC-insured up to \$250,000
- Credit Requirement if over \$250,000: Rating of "A" or the equivalent (Per S&P/ Moody's / Fitch)

### MEDIUM-TERM CORPORATE NOTES

Medium term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subsection must be rated "A" or better by a nationally recognized rating service

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at the time of purchase.

If the credit rating of a security falls below the “BBB” grade, it must be sold and removed from the City Portfolio unless the City Council approves the Director of Finance/Treasurer’s recommendation that the security should be retained. Director of Finance/Treasurer will monitor and report status of such security to City Council on each quarterly report prepared pursuant to Section 18.0.

- Maximum Maturity: 5 Years
- Maximum Percentage of Portfolio: 30%
- Maximum Exposure: 5% per Issuer

### MUTUAL FUNDS AND MONEY MARKET MUTUAL FUNDS

California Government Code Sections 53601 (k) permits public agencies to invest 20% of their portfolio in mutual funds or money market. Money market funds are limited to a maximum dollar-weighted average maturity of 90 days; each investment must have a remaining maturity of thirteen months or less at time of purchase; and the fund must strive to maintain a constant net asset value of \$1.00. These restrictions are designed to protect assets from a loss in value that can result from substantial increases in interest rates.

The California Government Code Section 53601 (k) (2) permits public agencies to invest in “shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.) as long as the company shall have met either of the following criteria: (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations or (B) Retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with no less than five years’ experience investing in the securities and obligations authorized by subdivisions (a) to (j), inclusive, or subdivisions (m) or (n) and with assets under management in excess of five hundred million dollars (\$500,000,000).”

- Maximum Percentage of Portfolio: 10 %

The California Government Code Section 53601 (p) permits public agencies to invest in “shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (o), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria: (1) The adviser is registered or exempt from registration with the Securities and Exchange Commission; (2) The adviser has not less

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than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (o), inclusive; and (3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).”

- Duration: Less than 1 year; Maximum Percentage of Portfolio: 50%
- Duration: More than 1 year; Maximum Percentage of Portfolio: 25%

**TIME DEPOSITS-CERTIFICATES OF DEPOSIT (non-negotiable certificates of deposit.)**

Time deposits, non-negotiable and collateralized in accordance with the California Government Code, may be purchased through banks or savings and loan associations with an “A” or better rating.

- Maximum Maturity: 1 Year
- Maximum Percentage of Portfolio: 10%
- Maximum Exposure: \$500,000 per Issuer

**THE LOCAL AGENCY INVESTMENT FUND (LAIF)**

A pooled investment fund managed by the State Treasurer’s Office, which operates like a money market fund for the exclusive benefit of governmental entities within California.

- Maximum of Portfolio: Maximum set by LAIF

**9.1 Bond Proceeds**

In addition to the investment vehicles enumerated in Section 9.0, the proceeds of bond issues (including reserve funds) may be invested in long term Guaranteed Investment Contracts (GIC), Investment Agreements (IA), or other Structured Products (SP) that comply with the Permitted Investment restrictions of the particular bond issue.

Before soliciting bids from providers of GIC's, IA's, or SP's, the Director of Finance/Treasurer shall obtain approval from the City Council to proceed.

**9.2 Investment Pools:**

The City’s Director of Finance/Treasurer or designee shall be required to investigate all local government investment pools and money market mutual funds prior to investing and performing an annual review thereafter while the City is invested in the pool or the money market fund. LAIF is authorized under provisions in Section 16429.1 of the California Government Code as an allowable investment for local agencies even though some of the individual investments of the pool are not allowed as a direct investment by a local agency.

**9.3 Prohibited Investments:**

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Under the provisions of California Government Code Sections 53601.6 and 53631.5, the City of Palm Springs shall not invest any funds covered by this Investment Policy in inverse floaters, dual index, stepped inverse derivatives, repurchase agreements, reverse repurchase agreements, range notes, interest-only strips derived from mortgage pools, stock in any joint company, corporation or association, or any investment that may result in a zero interest accrual if held to maturity.

### **9.4 Social Responsibility:**

The City shall not knowingly make any investments in any institution, company, corporation, subsidiary, or affiliate that practices or supports directly or indirectly through its actions, discrimination on the basis of race, religion, color, creed, national or ethnic origin, age, sex, sexual orientation, or physical disability, as this is not in accordance with the City of Palm Springs policies regarding discrimination.

Investments are encouraged in entities that support community well-being through safe and environmentally sound practices and fair labor practices. Investments are encouraged in entities that support equality of rights regarding race, religion, color, creed, national or ethnic origin, age, sex, sexual orientation, or physical disability. Investments should be made to the extent reasonable under the circumstances that such socially responsible investments meet minimum permitted requirements by state law, and achieve substantially equivalent safety, liquidity, and yield when compared to similar investments permitted by state law.

Prior to making investments the City's Director of Finance/Treasurer's office will reasonably verify an entity's support of the socially responsible goals listed above through direct contact or through the use of a third party resource.

### **10.0 Portfolio Adjustments:**

Periodic purchase and sale transactions may be executed to align the portfolio with the City's stated strategic risk profile or market benchmark, or to capitalize on perceived relative value opportunities to improve safety, liquidity, yield, or risk/return profile of the portfolio. Transaction information will be included in the Monthly Investment Report that is submitted to the City Council. Should any investment listed in section 9.0 exceed a percentage-of-portfolio limitation due to an incident such as fluctuation in portfolio size, the affected securities may be held to maturity to avoid losses. If it becomes necessary to sell an investment prior to maturity (either at a profit or loss) due to unexpected cash flow needs, the Director of Finance/Treasurer shall first obtain approval for the transaction from the City Manager.

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**11.0 Collateralization:**

Under provisions of the California Government Code, California banks and savings and loan associations are required to secure the City's deposits by pledging government securities with a value of 110 % of principal and accrued interest. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total deposits. Collateral will always be held by an independent third party. The market value of securities that underlay a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day. The Director of Finance/Treasurer, at his or her discretion, may waive the collateral requirement for deposits that are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The right of collateral substitution is granted.

**12.0 Safekeeping and Custody:**

All City investments shall identify the City of Palm Springs as the registered owner, and all interest and principal payments and withdrawals shall indicate the City of Palm Springs as the payee. All securities shall be safe kept with the City itself or with a qualified financial institution, contracted by the City as a third party. All agreements and statements will be subject to review annually by external auditors in conjunction with their audit. In the event that the City has a financial institution hold the securities, a separate custodial agreement shall be required. All securities shall be acquired by the safekeeping institution on a "Delivery-Vs-Payment" (DVP) basis.

**13.0 Diversification:**

The City's investment portfolio will be diversified to avoid incurring unreasonable or avoidable risks associated with concentrating investments in specific security types, maturity segment, or in individual financial institutions. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the total investment portfolio will be invested in a single security type or with a single financial institution. In addition, no more than 10% of the investment portfolio shall be in securities of any one issuer except for U.S. Treasuries and U.S. Government Agency issues.

- A. Credit risk, defined as the risk of loss due to failure of the insurer of a security, shall be mitigated by investing in those securities with an "A" or above rating and approved in the Investment Policy and by diversifying the investment portfolio so that the failure of any one issuer would not unduly harm the City's cash flow.

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B. Market risk, defined as the risk of market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated, when possible, by structuring the portfolio so that securities mature at the same time that major cash outflows occur, thus eliminating the need to sell securities prior to their maturity. It is explicitly recognized, however, that in a diversified portfolio, occasional measured losses are inevitable and must be considered within the context of overall investment return. The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

**14.0 Maximum Maturities:**

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five (5) years from the date of purchase, unless, the City Council has granted express authority to make that investment either specifically, or as a part of an investment program approved by the City Council. The weighted average maturity of the pooled portfolio shall not exceed 3 years (1,095 days) and individual maturities are subject to the limitations described in Section 9.0.

**15.0 Internal Control:**

The Director of Finance/Treasurer shall establish a system of internal controls designed to prevent loss of public funds due to fraud, employee error, and misrepresentation by third parties, or unanticipated market changes. No investment personnel may engage in an investment transaction except as provided for under the terms of this Investment Policy and the procedure established by the Director of Finance/Treasurer.

The external auditors shall annually review the investments with respect to the Investment Policy. This review will provide internal control by assuring compliance with policies and procedures for the investments that are selected for testing. Additionally, account reconciliation and verification of general ledger balances relating to the purchasing or maturing of investments and allocation of investments to fund balances shall be performed by the Finance Department and approved by the Director of Finance/Treasurer.

To provide further protection of City funds, wiring of any City funds is prohibited without the authorization of one of the following designated City staff:

1. Director of Finance/Treasurer
2. Assistant Director of Finance
3. Assistant City Manager
4. City Manager

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**16.0 Performance Standards:**

This Investment Policy shall be reviewed at least annually by the Director of Finance/Treasurer to ensure its consistency with the overall objective of preservation of principal, liquidity, and return, and its relevance to current law and financial and economic trends. All financial assets of all other funds shall be administered in accordance with the provisions of this Investment Policy.

**16.1 Market Yield (Benchmark):**

The investment portfolio shall be managed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow. Investment return becomes a consideration only after the basic requirements of investment safety and liquidity have been met. The Finance Director/Treasurer shall establish an appropriate benchmark or benchmarks, as appropriate, for investment parameters that reflect the types and maturities of investments allowed under this policy. While the City will not make investments for the purpose of trading or speculation as the dominant criterion, the Director of Finance/Treasurer shall seek to enhance total portfolio return by means of ongoing portfolio and cash management. The prohibition of highly speculative investments precludes pursuit of gain or profit through unusual risk and precludes investments primarily directed at gains or profits from conjectural fluctuations in market prices. The Director of Finance/Treasurer will not directly pursue any investments that are leveraged or deemed derivative in nature. However, as long as the original investments can be justified by their ordinary earning power, trading in response to changes in market value can be used as part of on-going portfolio management.

**17.0 Oversight Committee:**

A committee comprised of one Council member appointed by Council, the City Manager and the Director of Finance/Treasurer, shall provide oversight of the City's investments. The Committee shall meet quarterly to review the City's investment activity.

**18.0 Reporting:**

The Director of Finance/Treasurer shall submit a monthly investment report to the City Council following the end of each month. This report will include the following elements:

- Type of investment
- Institutional Issuer
- Purchase Date
- Date of maturity
- Amount of deposit or cost of the investment

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- Face value of the investment
- Current market value of securities and source of valuation
- List of transactions occurring during the reporting period
- Rate of interest
- Percentage of Portfolio by Investment Type and by Maturity
- Days to Maturity for all Investments
- Performance of the portfolio relative to benchmark(s), as appropriate
- Comparative report on Quarterly Investment Balances and Yields
- Statement relating the report to its compliance with the Statement of Investment Policy or the manner in which the portfolio is not in compliance
- Statement on availability of funds to meet the next six month's obligations

This monthly investment report shall be an information item for the City Council. A commentary on capital markets and economic conditions may be included with the report but is not required. The Director of Finance/Treasurer shall include in the monthly reports for September, December, March and June a calculation of interest income for the quarter and the comparison of the portfolio yield to the benchmark described in Section 16.1.

**19.0 Investment Policy Adoption:**

This Investment Policy shall remain in full force and effect until such time as the City Council amends this policy. The City Manager will submit the Investment Policy to the City Council for review and adoption on an annual basis.

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**GLOSSARY**

**AGENCIES:** Federal agency securities.

**ASKED:** The price at which securities are offered. (The price at which a firm will sell a security to an investor.)

**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. The drafts are drawn on a bank by an exporter or importer to obtain funds to pay for specific merchandise. An acceptance is a high-grade negotiable instrument.

**BASIS POINT:** One one-hundredth of a percent (i.e., 0.01 %)

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

**BROKER:** A broker brings buyers and sellers together for a commission. He does not take a position.

**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a certificate. Large-denomination CDs 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 note 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 of America, etc.

**COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR):** The official annual financial report for the City. It includes combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP).

**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.

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**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.

**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.

**DURATION:** A measure of the sensitivity of the price (value of principal) of a fixed-income investment to a change in interest rates over a period of time. Duration is expressed by a number of years. Stagnant or falling interest rates may result in the duration of an investment being shorter than the stated maturity date.

**FEDERAL CREDIT AGENCIES:** Agencies of the Federal government set up to supply credit to various classes of institutions (e.g., S&Ls, small business firms, students, farmers, farm cooperatives, and exporters).

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A Federal agency that insures bank deposits, currently up to \$250,000 per deposit.

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

**FEDERAL HOME LOAN BANKS (FHLB):** The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

**FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC):** Created to promote the development of a nationwide secondary market in mortgages. It does this by purchasing residential mortgages from financial institutions insured by an agency of the federal government and selling its interest in them through mortgage backed securities. The interest and principal payments from the mortgages pass through to the investors either monthly, semiannually or annually.

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**FEDERAL LAND BANK (FLB):** 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.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA):** FNMA, 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 highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

**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 are members of the system.

**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA OR GINNIEMAE):**

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 or VA mortgages. The term "pass-through" is often used to describe Ginnie Mae securities.

**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 presumable

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be purchased or sold.

**MARKET REPURCHASE AGREEMENT:** A written contract covering all future transactions between the parties to repurchase-reverse agreements that establish 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.

**NEGOTIABLE CERTIFICATES OF DEPOSIT:** Unsecured obligations of the financial institution, bank or savings and loan, bought at par value with the promise to pay face value plus accrued interest at maturity. They are high-grade negotiable instruments, paying a higher interest rate than regular certificates of deposit.

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

**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 securities held by an investor.

**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.

**PRUDENT PERSON RULE:** An investment standard. In some states, the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state-the so - called "legal list". In other states, the trustee may invest in a security if it is one that would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

**RATE OF RETURN:** The yield obtainable on a security based on its purchase price or its current market price.

**REPURCHASE AGREEMENT (RP OR REPO):** A holder of securities sells these

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securities to an investor with an agreement to repurchase them at 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 position. Exception: when the Fed is said to be doing RP, 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.

**SUPRANATIONALS:** Development banks that share the same goal of providing an improved standard of living in their member countries, but each having different mandates. There are three banks (Supranationals) in which California local agencies can invest their debt obligations; the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC) and Inter-American Development Bank.

**STUDENT LOAN ASSOCIATION NOTES (SLMA or SALLIE MAE):** A U.S. Corporation and instrumentality of the U.S. Government. Through its borrowings, funds are targeted for loans to students in higher education institutions. SLMA securities are highly liquid and are widely accepted.

**SMALL BUSINESS ADMINISTRATION (SBA):** The portion of these securities which are guaranteed by the Federal government to provide financial assistance through direct loans and loan guarantees to small businesses. Cash flows from these instruments may not be in equal installments because of prepayments.

**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”.

**TENNESSEE VALLEY AUTHORITIES (TVA):** A U.S. Corporation created in the 1930s to electrify the Tennessee Valley area; currently a major utility headquartered in Knoxville, Tennessee. TVA securities are highly liquid and are widely accepted.

**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 BOND:** Long-term U.S. Treasury securities having initial maturities of more than 10 years.

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**TREASURY NOTES:** Intermediate-term coupon bearing U.S. Treasury having initial maturities of one year to ten 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.

**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.