

CITY OF AGOURA HILLS STATEMENT OF INVESTMENT POLICY

I. INVESTMENT OBJECTIVES:

The purpose of this statement is to provide guidelines for the investment of the City's funds and is based upon State law and prudent money management. This policy is designed according to the specific needs of the City of Agoura Hills. The ultimate goal is to enhance the economic status of the City while ensuring the safety of funds. The authority governing investment of public funds is set forth in the Government Code, Sections 53601 et seq.

The City holds to the "prudent investor standard" in that all investments placed shall be made with a degree of judgment and care, not for speculation, but considering the safety of the monies and acting as a fiduciary of the public trust. The prudent investor standard as set forth in Section 53600.3 of the Government Code is as follows. "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." Related activities which comprise good cash management include cash projections, the expeditious collection of revenue, disbursement control and a cost effective banking relationship.

The City shall be guided by the following criteria when placing investments:

1. Safety: Safety is the primary duty and responsibility in order to protect, preserve and maintain the principal of the City's public funds, which are for the benefit of citizens of the community.
2. Liquidity: An adequate percentage of the portfolio should be maintained in short term securities which can be converted to cash if necessary to meet disbursement requirements. Since all cash requirements cannot be anticipated, investments in securities with active secondary or resale markets are placed. These securities should have a low sensitivity to market risk (price changes).
3. Yield: Yield becomes a consideration only after the basic requirements of safety and liquidity have been met.

It is intended that the scope of this policy cover the investment of surplus (i.e., monies not required for the immediate needs of the City) of all monies held under the direct authority of the City. The General Fund, Special Revenue Funds, Capital Projects Fund and Trust and Agency Fund are pooled in the Banking and Investment Fund.

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II. GUIDELINES:

These guidelines are established to direct and control the investment process to meet established goals and objectives.

1. Investment Transaction: Pursuant to Government Code Section 53607, the City Council of the City of Agoura Hills delegates the authority to invest or reinvest funds of the City, or to sell or exchange securities so purchased, to the City Treasurer. Internal controls state that every transaction must be reviewed, authorized and documented. Transaction documentation will be maintained for audit purposes. The investments placed shall conform to the City's "Statement of Investment Policy," meet the funds available and anticipated interest rate trends test.
2. Pooled Cash: The City's cash is consolidated into one bank account, and the surplus monies for all funds are invested on a pooled concept basis. Interest earnings shall be allocated according to fund cash balances on a quarterly and/or annual basis.
3. Cash Forecast: The cash flow for the City shall be analyzed daily so that adequate cash will be available to develop an investment strategy and to meet disbursement requirements.
4. Investments: The following is a list of the investments authorized by the City of Agoura Hills and shall be maintained within the statutory limits imposed by the Government Code.

A detailed description of the criteria for these investments is listed in Appendix A.

<u>Authorized Investments/Deposits</u>	<u>Portfolio Percentages</u>	<u>Maximum Maturity</u>
Local Agency Investment Fund	\$40 million **	N/A
U. S. Treasury Issues	Unlimited	5 Years
Federal Agency Sec. (FFCB and FHLB only)	30%	5 Years
Commercial Paper	25%	270 Days
Negotiable Certificates of Deposit (CD)	30%	5 Years
Medium Term Corporate Notes	30%	5 Years

** Limit set by LAIF Governing Board not State Government Code.

5. Wire Transfer: Any transfers to/from LAIF representing deposits or withdrawals effectuating an investment decision by the City Treasurer shall be completed by Finance Department staff and authorized by the City Manager. All other transfers shall be made by the City Treasurer or, provided that such transfer effectuates an investment decision made by the City Treasurer. The City's bank verifies each transaction with the Finance Department.

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6. GASB 3: The Governmental Accounting Standard Board (GASB) issued GASB 3 requiring disclosure by investment classification in the footnotes of the City's Comprehensive Annual Financial Report (CAFR). The intent of the rating categories is to quantify risk associated with the City's ownership of various types of investments. The carrying amount (cost) and market value of all types of the City's investments shall be disclosed in total and for each type of investment. The disclosure shall be classified by these three categories of risk:
 1. Insured or collateralized with securities held by the City or by its agent in the City's name;
 2. Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name; and
 3. Uncollateralized. All classifiable investments not belonging in category 1 or 2.
7. The City Treasurer shall prepare a monthly Treasurer's Report meeting the requirements of Government Code Section 53646.
8. All U.S. Treasury Issues, Federal Agency Securities, Commercial Paper, and Medium Term Corporate Notes purchased shall be delivered to our safekeeping account at the Bank of America, Security Services Division, an independent third party custodian. Purchase is made on a delivery versus payment basis. Book entry is considered delivery. The City shall retain physical custody of all CD's. There is no safekeeping document for LAIF investments as it is not evidenced by physical or book entry securities.

III. LEGAL AND POLICY CONSTRAINTS

1. The City does not purchase or sell securities on margin.
2. The City does not use Reverse Repurchase Agreements for the investment of funds.
3. The City does not use third party broker-dealer accounts for the custody of funds or securities. However, pursuant to Government Code Section 53601.5, the City shall purchase each authorized investment either (a) directly from the issuer or (b) from an institution licensed by the state as a broker-dealer, as defined in Section 25004 of the Corporations Code, from a member of a federally regulated securities exchange, from a national or state-chartered bank, from a savings association or federal association (as defined by Section 5102 of the Financial Code), or from a brokerage firm designated as a primary government dealer by the Federal Reserve bank.
4. The City will only place that amount which is covered by FDIC Insurance or fully collateralized in a Negotiable Certificate of Deposit.
5. The City does not place investments with a maturity in excess of five years in accordance with Government Code, Section 53601.

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APPENDIX A

INVESTMENT SECURITIES

U.S. TREASURY ISSUES are direct obligations of the United States Treasury and backed by the full faith and credit of the United States. Authorized maturities are three months, six months, and 52 weeks for treasury bills and 2 years, 3 years, and 5 years for notes.

FEDERAL AGENCY SECURITIES:

FEDERAL FARM CREDIT BANKS (FFCB) The Farm Credit System is a nationwide system of lending institutions and affiliated service entities which provides credit-related services to farmers, ranchers, farm-related businesses, cooperatives and rural utilities. System institutions are federally chartered under the Farm Credit Act and are subjected to federal regulations.

FEDERAL HOME LOAN BANK SYSTEM (FHLB) The Federal Home Bank System was created in 1932 to serve as a credit reserve for the savings and loan industry. It is organized into twelve regional banks that operate independently, but under a common board of directors in Washington. Each regional bank provides liquidity and home mortgage credit to thrifts, commercial banks and mortgage lending institutions in its region.

NEGOTIABLE CERTIFICATES OF DEPOSIT are investments for inactive funds issued by banks. The City will only place that amount which is covered by Federal Deposit Insurance Corporation (FDIC), or fully collateralized, in a Certificate of Deposit. Certificates of Deposit can be issued from 30 days to several years in maturity allowing the City investment of funds to be matched to cash flow needs; the City may invest in Certificates of Deposit up to a maximum maturity of 5 years. The Government Code limits the City's purchases of negotiable certificates of deposit to a maximum of thirty percent (30%) of the City's surplus money.

The Government Code prohibits a local agency from investing its funds in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or any person with investment decision-making authority in the administrative office manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

COMMERCIAL PAPER is a short term unsecured promissory note issued by a corporation to raise working capital. These negotiable instruments may be purchased at a discount to par value or interest bearing. Commercial paper is issued by corporations, and the issuer of any commercial paper purchased by the City shall meet all of the following conditions in either paragraph (1) or paragraph (2) below:

- (1) The issuer meets the following criteria:
 - (A) Is organized and operating in the United States as a general corporation.
 - (B) Has total assets in excess of five hundred million dollars (\$500,000,000).

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- (C) Has debt other than commercial paper, if any, that is rated “A” or higher by a nationally recognized statistical-rating organization (NRSRO).
- (2) The issuer meets the following criteria:
 - (A) Is organized within the United States as a special purpose corporation, trust, or limited liability company.
 - (B) Has programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.
 - (C) Has commercial paper that is rated “A-1” or higher, or the equivalent, by a nationally recognized statistical-rating organization (NRSRO).

Local agencies are permitted by state law to invest in commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by a nationally recognized statistical-rating organization (NRSRO) such as Moody's Investor's Service, Inc. or Standard and Poor's Corporation. Eligible commercial paper shall have a maximum maturity of 270 days or less. The City may invest no more than 25% of its monies in eligible commercial paper and may purchase no more than 10% of the outstanding commercial paper of any single issuer.

LOCAL AGENCY INVESTMENT FUND (L.A.I.F.) is 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 of \$40 million for any agency. It offers high liquidity because deposits can be converted to cash in twenty-four hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share determined by the amounts deposited and the length of time they are deposited. Interest is paid quarterly via a check or warrant or automatic deposit.

The State keeps an amount for reasonable costs of making the investments, not to exceed one-quarter of one percent of the earnings.

MEDIUM TERM CORPORATE NOTES are unsecured promissory notes issued by a corporation organized and operating in the United States or by depository institutions licensed by the United States or any state and operating within the United States. These are negotiable instruments and are traded in the secondary market. Medium Term Corporate Notes (MTN) are financing instruments similar to commercial paper (which by definition have maximum 270 days maturity), but MTNs have maturities of 270 days to a maximum remaining maturity of 5 years or less. Corporations use these MTN's to raise capital. An example of a MTN issuer is General Electric.

The Government Code restricts eligible MTNs to MTNs rated “A” or better by a nationally recognized rating service. However the City of Agoura Hills will limit their investments to those of the highest quality (AAA). Further restrictions are a maximum remaining term of five years

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to maturity, and total investments in Medium Term Corporate Notes may not exceed thirty percent (30%) of the City's surplus money.