

City of Beaumont, California



Investment Policies

1. Introduction

The City of Beaumont shall invest public funds in such a manner as to comply with state and local laws; ensure prudent money management; provide for daily cash flow requirements; and meet the objectives of the Policy; in priority order of Safety, Liquidity and Return on investment.

2. Scope

The City's investment policies apply to all personnel, departments, divisions and offices of the City government as well as all associated accounting funds under the direct authority of the City of Beaumont. These accounting funds include, but are not limited to, the General Fund, Special Revenue Funds, Enterprise Funds, Internal Service Funds, Debt Service Funds, Capital Projects Funds, Private Purpose Trust Funds and Agency Trust Funds. These investment policies are also applicable to the City's blended component units, including the Successor Agency to the Beaumont Redevelopment Agency, Beaumont Utility Authority, Beaumont Public Improvement Authority.

3. Responsibility

The City Manager is ultimately responsible for the City's implementation and compliance with these policies, unless the City Council authorizes exceptions. Under the direction of the City Manager, the Finance Director will review, develop and implement a system of processes and procedures to ensure compliance with these policies throughout the entire organization. The City Manager will work with the Finance Director to ensure these policies are updated on a timely basis.

4.Pooling of Funds

The City of Beaumont consolidates cash balances from all eligible funds to maximize investment earnings. Funds held by the Trustee are not eligible to be pooled. The City schedules its collection of receipts, deposits of funds and disbursements of monies to ensure maximum availability of cash for temporary investment purposes. Investment income is allocated to the various Funds based on their respective participation and in accordance with Generally Accepted Accounting Principles (GAAP).

5.Investment Objectives

The primary objectives (in order of priority) of the City investment activities are the safety of principal and preservation of capital, liquidity, and yield.

1. **Safety of Principal and Preservation of Capital.** Safety of principal and preservation of capital are the foremost objectives of the investment program. Investments are undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective is to mitigate credit risk and interest-rate risk.

A. **Credit Risk.** The City of Beaumont will minimize credit risk, the risk of loss due to the failure of the security issuer or backer by:

(1) Limiting investments to the safest type of securities. All investments must be made only in investment grade securities A rating or higher.

(2) Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with whom the City of Beaumont will do business.

The City of Beaumont will use the approved purchasing process for any Investment Advisor services. Within this process will be an agreed upon condition that the Investment Advisor's services obtained shall be required to prequalify all financial institutions to comply with the City of Beaumont's Investment Policy.

(3) Diversifying the investment portfolio so that potential losses on overall portfolio will be strictly limited. The investments shall be diversified by:

- Limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
- Investing in securities of varying maturities and
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

B. Interest Rate Risk. The City of Beaumont will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by:

(1) 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,

(2) Investing operating funds primarily in shorter-term securities or with State and local government investment pools to ensure liquidity needs are met and stability of principal is assured.

2. Liquidity. The investment portfolio remains sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrently with the City's cash needs to meet anticipated demands (static liquidity). A portion of the portfolio also may be placed in money market mutual funds or Local Government Investment Pools (LGIP's) which offer either same-day or next-day liquidity. Furthermore, since all possible cash demands cannot be anticipated, the portfolio consists largely of securities with active secondary or resale markets (dynamic liquidity). The City will ensure that liquid resources are available to meet at least six months of operating expenses.

3. Yield on Investments. The investment portfolio is designed with the objective of attaining a market rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs of the City. Return on investment is of secondary importance compared to the safety and preservation of capital and liquidity objectives described above. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to the maturity with the following exceptions:

A. Loss of Principal. A security with declining credit may be sold early to minimize loss of principal. While investments in securities that pose some risk of principal loss, the portfolio of investments must be structured to strictly limit the overall loss of principal while seeking to increase the rate of investment return.

B. **Security Swap.** A security swap would improve the quality, yield, or target duration in the portfolio.

C. **Liquidity.** Liquidity needs of the portfolio require that the security be sold. Any non-liquid investments will be structured to ensure they become liquid in time to meet operating expenditures. This will require managing of maturity dates for investments to ensure liquid funds are available when needed.

6. Standards of Care

A. **Prudence.** The standard of prudence used by investment officials is the “prudent” person standard (Civil Code Section 2261, et. seq.) and is applied in the context of management an overall investment portfolio. Investment officers acting in accordance with written procedures and this overall 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 in a timely fashion and the liquidity and sale of securities are carried in accordance with the terms of this policy.

Investments are made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

B. **Public Trust, Ethics and Conflicts of Interest.** Investment officials recognize that the investment portfolio is subject to public review and evaluation. The overall program is designed and managed with a degree of professionalism that is worthy of the public trust.

Officers and employees involved in the investment process will refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials will disclose any material interest in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers will refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City of Beaumont.

C. Delegation of Authority. Authority to manage the City’s investment program is granted to the City Manager and his or her designee, hereinafter referred to the “Investment Officer,” Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with this investment policy.

7. Authorized Financial Dealers and Institutions

The City will secure the services of one or more approved financial institutions authorized to provide investment services to the to the City of Beaumont. These may include “primary” dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). A determination should be made to ensure that all approved broker/dealer firms, and individuals covering the City of Beaumont, are reputable and trustworthy. In addition, the broker/dealer firms should have the ability to meet all of their financial obligations in dealing with the City of Beaumont. The firms, and individuals covering the City of Beaumont, should be knowledgeable and experienced in Public Agency investing and the investment products involved. No public deposit shall be made except in a qualified public depository as established by the established state laws. All financial institutions and broker/dealers who desire to provide investment management services for the City will be selected through a competitive bidding process. At a minimum, any selected investment advisor/ manager will be required to provide evidence of all required licensure and/or certifications.

8. Beaumont’s Investment Policy

The City on an annual basis submits a copy of the current investment policy to all financial institutions approved to do business with the City. Confirmation of receipt of this policy is considered evidence that the dealer has read and understands the City’s investment policy and will recommend and execute only transactions suitable for and in compliance with the City’s Investment Policy. In selecting financial institutions for deposit or investment of City funds, the creditworthiness of the institutions will be considered. The City will continue to monitor financial institution’s credit characteristics and financial history throughout the period in which City funds are deposited or invested.

9. Authorized Investments for the City

The City is authorized by California Government Code Section 53600, et.seq. to invest in specific types of securities. Section 43601 of the Government Code sets limits on the type investments that may be in the City portfolio. Refer to attachment A for allowable investment by State of CA.

The City Council may establish further limits on the types of securities in which the City may invest its idle cash. Any investment security (except investment of bond proceeds as explained in the next section) not listed below is not a valid investment for the City of Beaumont.

1. Local Agency Investment Fund (LAIF) Investments. LAIF is a special fund of the State of California Treasury that local agencies may use to deposit funds for investment. Investments by the State Treasurer for City funds in LAIF are authorized by the City Council. State law prohibits LAIF from impounding any depositor's funds and prohibits the fund from ever declaring bankruptcy

2. United States Debt Obligations. These investments would include U.S. Government direct obligations such as Treasury bills, bonds, notes and other certificates of indebtedness where the full faith and credit of the United States are pledged for payment of principal and interest.

3. United States Agency Debt Obligations. These investments include obligations, participations or other instruments of, or issued by, a Federal Agency or a United States Government-Credit Bank (FFCB) or other obligations or other instruments issued by, or fully guaranteed as to principal and by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association (FNMA). While these U.S. Government debt issues are not backed by the full faith and credit of the United States, they do in fact have defacto backing from the Federal Government, and it would be most unlikely that the government would let any of these agencies default on its obligations.

4. Repurchase Agreements. These agreements would be limited to U.S. Government or its authorized Agencies' securities described in Number 2 and Number 3 above, provided that they are held less than a year.

5. Negotiable Certificates of Deposit (CD). A Certificate of Deposit (CD) is a time deposit with a specific maturity evidenced by a certificate. Certificates of Deposit must be issued through financial institutions insured by the Federal Deposit Insurance Corporation (FDIC), a federal agency of the United States Government that insures bank deposits up to \$250,000 per account

6. Pass Book Savings Account Demand Deposits. Savings accounts are hereby approved by the Beaumont City Council provided they are maintained only with banks and savings and loan institutions which

are insured by the Federal Deposit Insurance Corporation (FDIC), a federal agency of the United States Government that insures bank deposits up to \$250,000 per account.

7. **Overnight Repurchase Agreements.** The City is authorized by the City Council to set up a “sweep account” and to enter into an overnight repurchase agreement with an authorized bank to sweep cash from its checking accounts and other appropriate accounts to earn overnight interest on funds in these funds.

8. **State Obligations-CA and Others.** The City is authorized by the City Council to purchase State Obligations that fall within the allowable limits of the State Government Code and within the objectives of the City of Beaumont’s Investment Policy.

9. **CA Local Agency Obligations.** The City is authorized by the City Council to purchase CA Local Agency Obligations that fall within the allowable limits of the State Government Code and within the objectives of the City of Beaumont’s Investment Policy.

10. **Joint Powers Authority Pool.** The City is authorized by the City Council to invest in Joint Powers Authority Pools as long as they meet the criteria within the State Government Code and within the objectives of the City of Beaumont’s investment Policy and would require that statement 10 of this policy is followed prior to entrance into such investment pool.

11. **Money Market Mutual Funds.** The City is authorized by the City Council to invest in Money Market Mutual Funds whose portfolios consist entirely of U.S. government securities and would require that statement 10 of this policy is followed prior to entrance into such mutual fund.

12. **Commercial Paper-Pooled Funds.** Commercial paper is a money-market security issued by large corporations to obtain funds to meet short-term debt obligations and is backed only by an issuing bank or company promise to pay the face amount on the maturity date specified on the note. It is usually sold at a discount of face value. State Government Code requires that only the highest letter and number rating by a nationally recognized statistical ratings organization are allowed.

13. **CDARS Program.** A CDARS program is a CD laddering portfolio that allows investing with a relationship institution for different maturity levels of CDs. Despite using multiple banks, the program will submit one statement which makes administration simple.

10. Investment Pools/Mutual Funds

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed which will answer the following general questions:

1. A description of eligible investment securities, and a written statement of investment policy and objectives.
2. A description of interest calculations and how it is distributed, and how gains and losses are treated.
3. A description of how the securities are safeguarded (including the settlement process), and how often the securities are priced and program audited.
4. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
5. A schedule for receiving statements and portfolio listings.
6. Are reserves, retained earnings, etc. utilized by the pool/fund?
7. A fee schedule, and when and how is it assessed.
8. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

11. Investment of Bond Proceeds

The City directs the investment of proceeds in bonds or similar debt instruments issued as instructed in the bond indenture or similar investment documents. Bond proceeds are not eligible as a part of the City's pooled funds. Securities authorized by the bond indenture or similar investment documents that are not authorized by the City's Investment Policy will be considered approved when the bond indenture or similar investment document is approved by the City Council. Bond reserve funds, escrow funds and any funds approved by the City Council may be invested in securities with maturity limits of five years or an appropriate longer period. When possible, the bond indenture shall provide any specific restrictions or limitations on either the nature or the duration of the investments, and should be the governing document.

12.Safekeeping and Custody

1. **Custody.** To protect against potential losses by the collapse of individual securities dealers, all securities owned by the City shall be held in safekeeping by a third-party bank trust department acting as agent for the City under the terms of a custody agreement executed by the bank and the City. No outside broker/dealer or advisor may have access to the City funds, accounts or investments, and any transfer of funds to or through an outside broker/dealer must be approved by the City Council.

2. **Internal Control.** A system of internal controls has been established to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or unanticipated changes in financial markets. Internal controls deemed most important include control of collusion, separation of transaction authority from accounting and record keeping, custodial safekeeping, avoid of physical delivery of securities, clear delegation of authority to subordinate staff members, written confirmation of transactions for investments and wire transfers and development of a wire transfer agreement with the lead bank and third-party custodian.

3. **Delivery vs. Payment.** All trades where applicable executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities are held by a third-party custodian as evidenced by safekeeping receipts.

13.Reporting

In accordance with Government Code Section 53646(8)(1), the City Treasurer shall submit to the Finance Committee a quarterly report that will then be taken to the City Council. The report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par values and the current market values of each component of the portfolio, including funds managed for the City of Beaumont by third party contract managers. The report will also include the source of the portfolio valuation. As specified in Government Code 53646(e), if all funds are placed in the Local Agency Investment Fund (LAIF), FDIC insured accounts and/or county investment pool, the foregoing report elements may be replaced by copies of the latest statements from such institutions. The report must also include a certification that (1) all investment actions executed since the last report have been in full compliance with the investment policy, and, (2) the City of Beaumont will meet its expenditures obligations within the cash flow needs.

14. Investment Policy Adoption and Review

The City's independent certified public accountants annually review and make recommendations regarding the City's investment policies to the City Manager and City Council. In accordance with Senate Bill 564 and Senate Bill 866, effective January 1, 1996, the City staff brings forward each year the City's Investment Policy for review by the City Council. Mee

15. Glossary

Active investment management. An investment management strategy that involves the active trading of securities in an attempt to earn above-average returns on a portfolio. Active investment management requires frequent monitoring of financial markets with the investor taking positions on key market variables in an attempt to "beat" the market.

Arbitrage. The simultaneous purchase and sale of similar assets in order to profit from a price difference between the two assets, such as stocks, bonds, commodities, and currencies. In public finance, the term is commonly used to refer to the investment of bond proceeds in taxable instruments to increase investment income.

Arbitrage rebate. The federal government has imposed restrictions that prohibit an issuer from retaining arbitrage profits when investing bond proceeds at a yield that exceeds the yield on the bonds. The profit is rebated to the federal government.

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.

Benchmark. A benchmark is a composite of securities with specific characteristics such as credit, asset, and maturity. Investors can use a benchmark as a measure to compare the performance of their own portfolio.

Benchmarking. Benchmarking, also known as indexing, is a passive investment management approach in which an investor generally creates a portfolio that strives to achieve a return and risk profile similar to a benchmark or an index.

Certificate of deposit (CD). A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

Collateral. Underlying securities that are pledged to secure deposits of public funds. Also used in conjunction with repurchase agreements to protect the entity from default by the counterparty.

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.

Custody. The service of an organization, usually a financial institution, of holding (and reporting) a customer's securities for safekeeping. The financial institution is known as the custodian.

Delivery-versus-payment (DVP). A settlement procedure where payment for securities purchase is made simultaneously with the transfer of the purchased securities. The same procedure applies for a securities sale; the securities are transferred as payment is made. This procedure ensures that funds are released upon receipt of securities, thus protecting the government's assets.

Derivative instrument. A security that derives its value from an underlying asset, group of assets, reference rate, or index value. Some derivative instruments can be highly volatile and result in a loss of principal in changing interest rate environments.

Diversification. Dividing investment funds among a variety of securities offering different risk characteristics and independent returns to reduce risk in a portfolio.

Generally accepted accounting principles (GAAP). The criteria normally used by independent auditors to assess whether financial statements are "fairly presented."

Governmental Accounting Standards Board (GASB). The standard-setting body responsible for setting GAAP for state and local governments since 1984.

Leverage. Using borrowed funds for investment purposes or an attempt to increase the rate of return on a investment by buying securities on margin. This practice can be risky if interest rates rise or if investment yields are lower than expected.

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 price 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.

Marking-to-market. The practice of valuing a security or portfolio according to its market value, rather than its cost or book value.

Market value. The price at which a security is trading and could presumably be purchased or sold.

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

Passive investment management. An investment strategy where securities are bought with the intention of holding them to maturity or to mimic a benchmark or an index with the goal of achieving an average market rate of return.

Portfolio. Collection of securities held by an investor.

Primary dealer. A primary dealer is a bank or securities broker-dealer that trades in the U.S. government securities with the Federal Reserve Bank of New York (FRBNY). It is through the FRBNY Open Market Desk that the Federal Reserve System (“Fed”) implements monetary policy. A firm may become a primary dealer by meeting certain requirements, such as minimum capital adequacy standards. Some governments only conduct investment transactions with primary dealers because of these capital standards.

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 which 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 amount of income received from an investment, expressed as a percentage. A market rate of return is the yield that an investor can expect to receive in the current interest-rate environment utilizing a buy-and-hold to maturity investment strategy.

Regional dealer. Regional dealers are also referred to as “secondary” or “non-primary” dealers. These are all the firms that are not designated as “primary”. These firms do not trade directly with the FRBNY. Many firms, ranging in size, capitalization, as well as product focus, fall in this category.

Repurchase agreement (repo). A transaction in which a holder of securities sells those securities to an investor with an agreement to repurchase those securities for a fixed price at an agreed-upon date. A master repurchase agreement is a written contract governing all future transactions between the parties and seeks to establish each party’s rights in the transactions.

Reverse repurchase agreement. The opposite of a repurchase agreement. The investor owns the securities or collateral and a bank or dealer temporarily exchanges cash for the collateral for a specified period of time at an agreed-upon interest rate.

Safekeeping. A procedure where securities are held by a third party acting as custodian for a fee.

Securities and Exchange Commission (SEC). The Securities and Exchange Commission is a U.S. government agency having primary responsibility for enforcing the federal securities laws and regulating the securities industry.

SEC Rule 15c3-1. See Uniform Net Capital Rule.

Securities lending. Similar to a reverse repurchase transaction. Financial institutions offer to lend securities owned by institutional clients to brokers in exchange for collateral (typically cash), which is reinvested at a higher rate. The resulting proceeds are split between the client and the lending agent (financial institution).

STRIPS. Securities created by separating the principal and interest portions of bonds, such as 30-year Treasuries, or pools of mortgage-backed securities.

Treasury Bills. A non-interest bearing discounted 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 discount security issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

Total return. Interest income plus capital gains (or minus losses) on an investment.

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 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 percentage return on an investment; also called return. There are several yield calculations that can be made, such as yield to maturity, the promised return assuming all interest and principal payments are made and reinvested at the same rate taking into account price appreciation (if priced below par) or depreciation (if priced above par), or yield to call, the yield an investor will receive if the security is called prior to maturity.

**EXHIBIT A – ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE
(AS OF JANUARY 1, 2020) APPLICABLE TO ALL LOCAL AGENCIES**

| INVESTMENT TYPE | MAXIMUM MATURITY^c | MAXIMUM SPECIFIED % OF PORTFOLIO^d | MINIMUM QUALITY REQUIREMENTS | GOV'T CODE SECTIONS |
|---|-------------------------------------|---|--|------------------------------------|
| Local Agency Bonds | 5 years | None | None | 53601(a) |
| U.S. Treasury Obligations | 5 years | None | None | 53601(b) |
| State Obligations— CA And Others | 5 years | None | None | 53601(d) |
| CA Local Agency Obligations | 5 years | None | None | 53601(e) |
| U.S Agency Obligations | 5 years | None | None | 53601(f) |
| Bankers' Acceptances | 180 days | 40% ^e | None | 53601(g) |
| Commercial Paper— Non-Pooled Funds ^f | 270 days or less | 25% of the agency's money ^g | Highest letter and number rating by an NRSRO ^h | 53601(h)(2)(C) |
| Commercial Paper— Pooled Funds ⁱ | 270 days or less | 40% of the agency's money ^g | Highest letter and number rating by an NRSRO ^h | 53635(a)(1) |
| Negotiable Certificates of Deposit | 5 years | 30% ^j | None | 53601(i) |
| Non-negotiable Certificates of Deposit | 5 years | None | None | 53630 et seq. |
| Placement Service Deposits | 5 years | 50% ^k | None | 53601.8 and 53635.8 |
| Placement Service Certificates of Deposit | 5 years | 50% ^k | None | 53601.8 and 53635.8 |
| Repurchase Agreements | 1 year | None | None | 53601(j) |
| Reverse Repurchase Agreements and Securities Lending Agreements | 92 days ^l | 20% of the base value of the portfolio | None ^m | 53601(j) |
| Medium-Term Notes ⁿ | 5 years or less | 30% | "A" rating category or its equivalent or better | 53601(k) |
| Mutual Funds And Money Market Mutual Funds | N/A | 20% | Multiple ^{o,p} | 53601(l) and 53601.6(b) |
| Collateralized Bank Deposits ^q | 5 years | None | None | 53630 et seq. and 53601(n) |
| Mortgage Pass-Through and Asset-Backed Securities | 5 years or less | 20% | "AA" rating category or its equivalent or better | 53601(o) |
| County Pooled Investment Funds | N/A | None | None | 27133 |
| Joint Powers Authority Pool | N/A | None | Multiple ^r | 53601(p) |
| Local Agency Investment Fund (LAIF) | N/A | None | None | 16429.1 |
| Voluntary Investment Program Fund ^t | N/A | None | None | 16340 |
| Supranational Obligations ^u | 5 years or less | 30% | "AA" rating category or its equivalent or better | 53601(q) |
| Public Bank Obligations | 5 years | None | None | 53601(r), 53635(c) and 57603 |