



## **CITY OF BEAUMONT**

550 E. Sixth Street, Beaumont, CA 92223

Phone: (951) 769-8518 Fax: (951) 769-8526

# **REQUEST FOR PROPOSAL**

## **FOR Investment Advisor and Portfolio Management Services**

### **CITY OF BEAUMONT FINANCE DEPARTMENT**

Jeff Mohlenkamp, Director of Finance  
550 E. 6th Street - Beaumont, California 92223

(951) 572-3236

e-mail address: [jmohlenkamp@beaumontca.gov](mailto:jmohlenkamp@beaumontca.gov)

**Proposals Due By:**

12:00 Noon

Wednesday, January 6, 2020

RFP Available online at:  
Public Purchase, CSMFO, GFOA and  
[www.ci.beaumont.ca.us](http://www.ci.beaumont.ca.us)

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**CITY OF BEAUMONT**  
**REQUEST FOR PROPOSAL**  
**Investment Advisor and Portfolio Management Services**

**INTRODUCTION**

The City of Beaumont is seeking proposals from firms to provide investment advisory and portfolio management services for approximately \$89 million in operating and capital funds (non-pension funds). The term will be three years, with two one year options, which may be exercised at City's discretion. The selected firm(s) will be responsible for performing in accordance with the scope of services, as further detailed in Attachment II.

Background Information

The City of Beaumont is a general law city incorporated in 1912 currently serving a population of approximately 49,000, located in Western Riverside County. The City operates under a council-manager format of government which consists of a Mayor, Mayor Pro-Tem, three Councilmembers and the City Manager. The positions of Mayor and Mayor Pro-Tem are rotated among the elected Councilmembers. A City Clerk and Treasurer are elected position, each for a four-year term.

In addition to its function as the governing body of the City, the City Council acts as the governing body for other separate entities: Beaumont Financing Authority, Beaumont Public Improvement Authority, Beaumont Transit System, and the Beaumont Utility Authority. The City's management also has custodial, accounting and financial reporting responsibility for the Successor Agency to the City of Beaumont Redevelopment Agency. There is no requirement for separate financial reporting for these separate entities with one exception (Beaumont Transit System).

Official accounting records are on-site in the Finance Department, while some supporting information may be located in other departments within the City. Beaumont uses the Tyler Incode 10 accounting software. Payroll is processed through Paychex. We are in the process of upgrading Incode 10 to include the payroll module and should be complete by June 30, 2021.

The City's primary investment objective to achieve a reasonable rate of return on public funds while minimizing the potential for capital losses arising from market changes or issuer default. Although the generation of revenues through interest earnings on investment is an appropriate City goal, the primary consideration in the investment of City funds is capital preservation in the overall portfolio and maintaining required liquidity. As such, the City's yield objective is to achieve a reasonable rate of return on City investments rather than the maximum generation of income, which could expose the City to unacceptable levels of risk.

The Investment Policy is attached as Attachment III.

Relevant operational detail for conducting investment advisor and portfolio management services is provided as follows:

1. The Finance Department consists of the Finance Director, and five (5) staff members responsible for accounting and financial reporting, budgeting, payroll, accounts payable, revenue recording, banking and treasury investment, purchase order and project accounting tracking. Revenues are collected at various locations throughout the City and recorded in Tyler Incode 10 by non-finance department personnel.
2. City Funds and Account Groups are as follows:
  - a. General Fund (1)
  - b. Internal Service Funds (2)
  - c. Special Revenue Funds (9)
  - d. Debt Service Fund (1)
  - e. Capital Project Funds (17)
  - f. Enterprise Funds (7)
  - g. Agency Funds (4)
3. Within Incode's information management system, pooled cash is the consolidation of operating cash into one primary bank account. The accounts payable for all participating funds are paid from this one account. The routine receipts of all participating funds are deposited into this same bank account.
4. The City's total expected payroll for the year ended June 30, 2021 is approximately \$24 million, covering 157 budgeted full-time and part-time positions. The total municipal budget for the 2020-21 fiscal year is approximately \$48 million.

For further information, City's past two years AFRs' and current and last year adopted budget are located on the City's website at: <https://beaumontca.gov/921/Audits-and-Reports>

The City has not had a prior Investment Advisor and has participated mostly within the LAIF CA State Investment Program.

### Project Schedule

RFP Issued	<b>November 30, 2020</b>
Questions Due	<b>December 12, 2020</b>
Responses to questions provided by	<b>December 18, 2020</b>
Submittals Due	<b>January 6, 2021</b>
Staff Review	<b>January 7-15, 2021</b>
Presentations/Interview	<b>January 20-21, 2021</b>
Finance Committee Review	<b>February 8, 2021</b>
City Council Review/Approval	<b>February 16, 2021</b>

### Response Submittal

Interested firms shall submit three (3) copies of the proposal **no later than January 6, 2021 at 12:00p.m.** No late submittals will be accepted. "City of Beaumont 2020 Investment Advisor and Portfolio Management Services RFP" must be clearly marked on the outside of the envelope:

**Submit Proposal to:**

City of Beaumont  
550 E. 6<sup>th</sup> Street  
Beaumont, CA 92223

Additionally, one electronic copy of the proposal shall be sent to [finance@beaumontca.gov](mailto:finance@beaumontca.gov) by 12:00p.m. on January 6, 2021 for proposal to be considered.

Any requests for clarification or other questions concerning this RFP must be submitted via email to Jennifer Ustation (as shown below) no later than December 12, 2020. Responses to all questions will be provided to all known interested parties by December 18, 2020.

Jennifer Ustation, Senior Accountant  
Email:justation@beaumontca.gov

**General Requirements**

The City of Beaumont reserves the right to reject any or all responses, to waive any informality in any responses, and to select the vendor that best meets the City's needs.

There is no expressed or implied obligation for the City to reimburse responding firms for any expenses incurred in preparing proposals in response to this request. Materials submitted by respondents are subject to public inspection under the California Public Records Act (Government Code Sec. 6250 et seq.) unless exempt. Any language purporting to render the entire proposal confidential or proprietary will be ineffective and will be disregarded.

All property rights, including publication rights of all reports produced by respondents in connection with services performed under the agreement will be vested in the City. In addition, respondents will not publish or release any of the results of its examination without the express written permission of the City.

Responses must be submitted no later than the date and time stated on this RFP. Responses shall be reviewed and rated as set forth in the Selection Process section of this RFP. The City will then determine which firm best meets the City's requirements.

During the evaluation process, the City reserves the right (where it may serve the City's best interest) to request additional information or clarification from respondents. At the discretion of the City, firms submitting proposals may be requested to make oral presentations as part of the evaluation process.

The City reserves the right to retain all proposals submitted and to use any ideas in a proposal regardless of whether the proposal was selected. Submission of a proposal indicated acceptance by the firm of the conditions contained in the Request for Proposals, unless clearly and specifically noted in the proposal as submitted and confirmed in the contract between the City and the firm selected.

The City reserves the right to negotiate final pricing with the most qualified firm. The City may invite selected firms to meet with the evaluation team on or around the week of January 18, 2021, at no additional cost to the City.

The City's standard Contract Services Agreement is included as Attachment I . Upon award of the contract, it is expected that the successful proposer will accept the Agreement terms and conditions "as is" without modification. Any contract modifications are to be stated upfront, at the time of

submittal.

Any costs incurred in the preparation of the response, presentation to the City, travel in conjunction with such presentations, or samples of items shall be the responsibility of the respondent. The City assumes no responsibility and no liability for costs incurred by respondents prior to issuance of contract.

The proposer shall furnish the City with such additional information the City may reasonably require.

## **Proposal Requirements**

The City requests responses be organized in a logical format that is relevant to these services. The responses shall also be concise, excluding excessive or irrelevant material and should contain the following:

- A. Cover Page
- B. Table of Contents
- C. Executive Summary

Provide a brief summary describing the proposer's ability to perform the work requested, a history of the proposer's background and experience providing services, the qualifications of the proposer's personnel to be assigned to this project, any subcontractor, sub consultants, and/or suppliers and a brief history of their background and experience, and any other information called for by this request for proposal which the proposer deems relevant, including restating any exceptions to this request for proposal. This summary should be brief and concise to apprise the reader of the basic services offered, experience and qualifications of the proposer, staff subcontractors, and/or suppliers.

- D. Questionnaire/Response to Scope of Services

Proposer shall provide responses and information to fully satisfy each item in the Questionnaire. Each question item should be presented before the proposer's response.

- E. Attachments

## **Questionnaire**

- A. Company and General Information

- 1. Company name and address.
- 2. Letter of transmittal signed by an individual authorized to bind the respondent, stating that the respondent has read and will comply with all the terms and conditions of the RFP.
- 3. General information about the primary contact who would be able to answer questions about the proposal. Include name, title, telephone number and email address of the individual.

- B. Qualifications and Experience of the Firm

1. Describe the organization, date founded, and ownership of your firm. If your firm experienced a material change in organizational structure, ownership or management during the past three years, describe the change.
2. Which office(s) of your organization will have primary responsibility for managing this account? List the members of your team who will be responsible for providing the services and for ongoing support.
3. What is your firm's experience conducting the services requested? Describe comparable projects performed by your firm in the last five years, including number of projects, scope of service, and status of projects.
4. Describe any other business affiliations (subsidiaries, joint ventures, "soft dollar arrangements with brokers). Describe your firm's policy on soft dollars.
5. Describe your firm's experience managing fixed income portfolios for governmental entities.
6. Does your firm act as a broker or as a primary dealer in securities or receive any other form of additional compensation (including soft dollars) for the client transactions aside from the direct fee paid by clients?
7. Provide the number and types of accounts, total asset value, and composition of portfolios currently being managed by your firm.
8. Comment on other areas that may make your firm different from your competitors.
9. Describe your firm's sources of revenue, categorized by retail and institutional accounts.
10. Is your firm a registered Investment Advisor under the Investment Advisor's Act of 1940, as amended?
11. Describe any SEC, NASD, or regulatory censure or litigation involving your firm or its employees within the past three years.
12. Did you, or will you, pay a finder's fee to any third party for business related to this account? Specify the recipients of any fee.

C. Qualifications and Experience of Proposed Project Team

1. Describe the qualifications of staff proposed for the assignment, position(s) in the firm, and types and amount of equivalent experience. Be sure to include any municipal agencies they have worked with in the past three years and their level of involvement. A description of how overall supervision will be provided should be included.
2. Identify the investment professionals (portfolio manager, analysts, and researchers) employed by your firm, by classification, and specify the average number of accounts handled by portfolio managers. Are there any established limits on accounts or assets under management?

3. Provide an affirmative statement that the primary contact and all assigned key professional staff are properly licensed to practice in California.
4. Describe your firm's training and education efforts to keep portfolio managers informed of developments relevant to government investment managers.
5. Has there been any turnover of professional staff in the firm in the last three years assigned to public sector clients?
6. Summarize your assets under management (institutional only) over the past five years and average assets per client.
7. Provide relevant performance statistics on a comparable portfolio that you would recommend to the City of Beaumont and compare with industry averages or benchmarks for the last one, three, five, ten year period and/or since inception, noting the performance measurement methodology/basis (e.g. Total Rate of Return (GIPS), Effective Rate of Return, etc.).
8. How many accounts have you gained in the last 12 months? How many accounts have been lost in the last 12 months and why?

**D. Assets Under Management**

1. Summarize your institutional investment assets under management by category as shown below for your latest reporting period.

	<b>Governmental</b>	<b>Non-Governmental</b>	<b>Total</b>
Operating/Bond Funds	\$	\$	\$
Pension Funds			
Foundations			
Equity Funds			
<b>Total</b>	\$	\$	\$

**E. Investment Management Approach and Discipline**

1. Briefly describe your firm's investment management philosophy, including your approach to managing governmental portfolios.
2. How frequently do you formulate and review fixed income strategy? How is that carried out and who is involved?
3. What are the primary strategies for adding value to portfolios (e.g. market timing, credit research, trading)?
4. How are portfolios managed (e.g. by team or individual manager)? What is the back-up when the manager is away?
5. What oversight is provided to portfolio managers?
6. What role does interest-rate forecasting play in your portfolio management strategy?



7. How will you handle fluctuating cash flows and the cash forecasting process?
8. Describe on ongoing daily investment procedures proposed for the City including procedures for trades, security choice, controls, etc., and how you will provide liquidity.
9. How frequently would you suggest your staff meet with the City's staff? Who will attend these meetings?

#### F. Reporting

1. Describe the investment accounting and reporting system used by your firm.
2. Describe the frequency and format of reports that you would provide to the city staff. Send a sample.
3. What performance benchmarks would you suggest for this portfolio? Provide recommendations regarding performance benchmarks for a portfolio similar to that of the City's. What experience has the firm had in developing benchmarks for public operating portfolios?

#### G. Questions/Response to Scope of Services

1. Describe the methods by which your firm will fulfill the services requested in the Scope of Services and subsequent sections.
2. Provide a statement of the service(s) that differentiate your firm from other respondents.

#### H. Fees

1. Provide your fees for the proposed services. Fee quotes should be detailed by service.
2. Outline billing and payment expectations, including timing and method of payment.
3. Describe any remaining fees not previously detailed in the above.
4. Describe any remuneration that your agency would receive on any specific investment transactions completed on behalf of the City.

#### I. References

List the name, address and telephone number of references from at least three (3) recent similar projects. Include a brief description of the work provided for each reference. California municipal or county projects are preferred. You may offer more than three recent similar projects if desired. The references should include the start date of the project and the date of completion for each project.

#### J. Implementation Schedule

Include a detailed implementation schedule with an estimated project start date of February 17, 2021 and note key project milestones and timelines for deliverables. Identify any assumptions used in developing the schedule.

K. Certificate(s) of Insurance

The City will require the successful Respondent (or Proposer) to provide Certificates of Insurance evidencing required coverage types and the minimum limits. See the attached City Draft Standard Agreement for more information on the City's insurance requirements.

L. Business License

The proposing organization does not require a Beaumont City business license to respond to this RFP. However, the successful proposer will be required to acquire a Beaumont Business License during the contracting process and maintain an active license throughout the contracted period.

M. Standard City Professional Services Agreement

The City will require the successful Proposer to execute a professional services agreement with the City. Please review the attached draft agreement and identify any questions of concern in your response to the City.

## **Overview and Scope of Services**

The request for Proposals is for Professional Investment Advisory and Portfolio Management Services as set forth in Attachment II – Scope of Services.

## **Selection Process**

Staff will review the proposals and make a recommendation to the City Council for review (tentatively scheduled for February 16, 2021). The City intends to evaluate the proposals based upon the data presented in response to the RFP. The following general selection criteria will be used to evaluate each proposal:

1. Ability to meet service requirement; understanding the needs and requirements of the City; scope and services offered.
2. Experience, qualifications and knowledge of key personnel; references for similar work completed within the last three years.
3. Proposed pricing.
4. Completeness of responses to the Request for Proposals.

**Attachment I**

**AGREEMENT FOR PROFESSIONAL SERVICES BY INDEPENDENT CONTRACTOR**Error!

Bookmark not defined.

THIS AGREEMENT FOR PROFESSIONAL SERVICES BY INDEPENDENT CONTRACTOR is made and effective as of the \_\_\_\_\_ day of \_\_\_\_\_, 2020, by and between the CITY OF BEAUMONT ("CITY") whose address is 550 E. 6<sup>th</sup> Street, Beaumont, California 92223 and \_\_\_\_\_ whose address is \_\_\_\_\_ ("CONTRACTOR").

RECITALS

This Agreement is entered into on the basis of the following facts, understandings and intentions of the parties to this Agreement:

A. CITY desires to engage CONTRACTOR to provide \_\_\_\_\_; and

B. CONTRACTOR has made a proposal ("Proposal") to the CITY to provide such professional services, which Proposal is attached hereto as Exhibit "A"; and

C. CONTRACTOR agrees to provide such services pursuant to, and in accordance with, the terms and conditions of this Agreement, and represents and warrants to CITY that CONTRACTOR possesses the necessary skills, licenses, certifications, qualifications, personnel and equipment to provide such services.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing Recitals and mutual covenants contained herein, CITY and CONTRACTOR agree as follows:

1. Term of Agreement. This Agreement is effective as of the date first above written and shall continue until terminated as provided for herein. Notwithstanding anything in this Agreement to the contrary, this Agreement shall automatically terminate after one (1) year unless extended by the parties with the approval of the City Council of the CITY.

2. Services to be Performed. CONTRACTOR agrees to provide the services ("Services") as follows: \_\_\_\_\_ per Exhibit "A" and any other services which the City may request in writing. All Services shall be performed in the manner and according to the timeframe set forth in the Proposal. CONTRACTOR designates \_\_\_\_\_ as CONTRACTOR'S professional responsible for overseeing the Services provided by CONTRACTOR.

3. Associates and Subcontractors. CONTRACTOR may, at

CONTRACTOR's sole cost and expense, employ such competent and qualified independent associates, subcontractors and consultants as CONTRACTOR deems necessary to perform the Services; provided, however, that CONTRACTOR shall not subcontract any of the Services without the written consent of CITY.

4. Compensation.

4.01 CONTRACTOR shall be paid at the rates set forth in the Proposal and shall not increase any rate without the prior written consent of the CITY. Notwithstanding anything in this Agreement to the contrary, total fees and charges paid by CITY to CONTRACTOR under this Agreement shall not exceed

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4.02 CONTRACTOR shall not be compensated for any Services rendered nor reimbursed for any expenses incurred in excess of those authorized unless approved in advance by the CITY, in writing.

4.03 CONTRACTOR shall submit to CITY, on or before the fifteenth (15<sup>th</sup>) of each month, itemized invoices for the Services rendered in the previous month. The CITY shall not be obligated to pay any invoice that is submitted more than sixty (60) days after the due date of such invoice. CITY shall have the right to review and audit all invoices prior to or after payment to CONTRACTOR. This review and audit may include, but not be limited to CITY's:

a. Determination that any hourly fee charged is consistent with this Agreement's approved hourly rate schedule;

b. Determination that the multiplication of the hours billed times the approved rate schedule dollars is correct;

c. Determination that each item charged is the usual, customary, and reasonable charge for the particular item. If CITY determines an item charged is greater than usual, customary, or reasonable, or is duplicative, ambiguous, excessive, or inappropriate, CITY shall either return the bill to CONTRACTOR with a request for explanation or adjust the payment accordingly, and give notice to CONTRACTOR of the adjustment.

4.04 If the work is satisfactorily completed, CITY shall pay such invoice within thirty (30) days of its receipt. Should CITY dispute any portion of any invoice, CITY shall pay the undisputed portion within the time stated above, and at the same time advise CONTRACTOR in writing of the disputed portion.

5. Obligations of CONTRACTOR.

5.01 CONTRACTOR agrees to perform all Services in accordance with the terms and conditions of this Agreement and the Proposal. In the event that the terms of the Proposal shall conflict with the terms of this Agreement, or contain additional terms other than the Services to be rendered and the price for the Services, the terms of this Agreement shall govern and said additional or conflicting terms shall be of no force or effect.

5.02 Except as otherwise agreed by the parties, CONTRACTOR will supply all personnel, materials and equipment required to perform the Services. CONTRACTOR shall provide its own offices, telephones, vehicles and computers and set its own work hours. CONTRACTOR will determine the method, details, and means of performing the Services under this Agreement.

5.03 CONTRACTOR shall keep CITY informed as to the progress of the Services by means of regular and frequent consultations. Additionally, when requested by CITY, CONTRACTOR shall prepare written status reports.

5.04 CONTRACTOR is responsible for paying, when due, all income and other taxes, fees and withholding, including withholding state and federal taxes, social security, unemployment and worker's compensation, incurred as a result of the compensation paid under this Agreement. CONTRACTOR agrees to indemnify, defend and hold harmless CITY for any claims, costs, losses, fees, penalties, interest, or damages suffered by CITY resulting from CONTRACTOR's failure to comply with this provision.

5.05 In the event CONTRACTOR is required to prepare plans, drawings, specifications and/or estimates, the same shall be furnished in conformance with local, state and federal laws, rules and regulations.

5.06 CONTRACTOR represents that it possesses all required licenses necessary or applicable to the performance of Services under this Agreement and the Proposal and shall obtain and keep in full force and effect all permits and approvals required to perform the Services herein. In the event CITY is required to obtain an approval or permit from another governmental entity, CONTRACTOR shall provide all necessary supporting documents to be filed with such entity.

5.07 CONTRACTOR shall be solely responsible for obtaining Employment Eligibility Verification information from CONTRACTOR's employees, in compliance with the Immigration

Reform and Control Act of 1986, Pub. L. 99-603 (8 U.S.C. 1324a), and shall ensure that CONTRACTOR's employees are eligible to work in the United States.

5.08 In the event that CONTRACTOR employs, contracts with, or otherwise utilizes any CalPers retirees in completing any of the Services performed hereunder, such instances shall be disclosed in advance to the CITY and shall be subject to the CITY's advance written approval.

5.09 Drug-free Workplace Certification. By signing this Agreement, the CONTRACTOR hereby certifies under penalty of perjury under the laws of the State of California that the CONTRACTOR will comply with the requirements of the Drug-Free Workplace Act of 1990 (Government Code, Section 8350 et seq.) and will provide a drug-free workplace.

5.10 CONTRACTOR shall comply with all applicable local, state and federal laws, rules, regulations, entitlements and/or permits applicable to, or governing the Services authorized hereunder.

6. Insurance. CONTRACTOR hereby agrees to be solely responsible for the health and safety of its employees and agents in performing the Services under this Agreement and shall comply with all laws applicable to worker safety including but not limited to Cal-OSHA. Therefore, throughout the duration of this Agreement, CONTRACTOR hereby covenants and agrees to maintain insurance in conformance with the requirements set forth below. Attached hereto as **Exhibit "B"** are copies of Certificates of Insurance and endorsements as required by Section 7.02. If existing coverage does not meet the requirements set forth herein, CONTRACTOR agrees to amend, supplement or endorse the existing coverage to do so. CONTRACTOR shall provide the following types and amounts of insurance:

6.01 Commercial general liability insurance in an amount of not less than \$1,000,000 per occurrence and \$2,000,000 in the aggregate; CONTRACTOR agrees to have its insurer endorse the general liability coverage required herein to include as additional insured's CITY, its officials, employees and agents. CONTRACTOR also agrees to require all contractors and subcontractors to provide the same coverage required under this Section 6.

6.02 Business Auto Coverage in an amount no less than \$1 million per accident. If CONTRACTOR or CONTRACTOR's employees will use personal autos in performance of the Services hereunder, CONTRACTOR shall provide evidence of personal auto liability coverage for each such person.

6.03 Workers' Compensation coverage for any of CONTRACTOR's employees that will be providing any Services hereunder. CONTRACTOR will have a state-approved policy form providing statutory benefits as required by California law. The provisions of any workers' compensation will not limit the obligations of CONTRACTOR under this Agreement. CONTRACTOR expressly agrees not to use any statutory immunity defenses under such laws with respect to CITY, its employees, officials and agents.

6.04 Optional Insurance Coverage. Choose and check one: Required  X  /Not Required  ; Errors and omissions insurance in a minimum amount of \$2 million per occurrence to cover any negligent acts or omissions committed by CONTRACTOR, its employees and/or agents in the performance of any Services for CITY.

7. General Conditions pertaining to Insurance Coverage

7.01 No liability insurance coverage provided shall prohibit CONTRACTOR from waiving the right of subrogation prior to a loss. CONTRACTOR waives all rights of subrogation against CITY regardless of the applicability of insurance proceeds and shall require all contractors and subcontractors to do likewise.

7.02. Prior to beginning the Services under this Agreement, CONTRACTOR shall furnish CITY with certificates of insurance, endorsements, and upon request, complete copies of all policies, including complete copies of all endorsements. All copies of policies and endorsements shall show the signature of a person authorized by that insurer to bind coverage on its behalf.

7.03. All required policies shall be issued by a highly rated insurer with a minimum A.M. Best rating of "A:VII"). The insurer(s) shall be admitted and licensed to do business in California. The certificates of insurance hereunder shall state that coverage shall not be suspended, voided, canceled by either party, or reduced in coverage or in limits, except after thirty (30) days' prior written notice has been given to CITY.

7.04 Self-insurance does not comply with these insurance specifications. CONTRACTOR acknowledges and agrees that that all insurance coverage required to be provided by CONTRACTOR or any subcontractor, shall apply first and on a primary, non-contributing basis in relation to any other insurance, indemnity or self-insurance available to CITY.

7.05 All coverage types and limits required are subject to approval, modification and additional requirements by CITY, as the need arises. CONTRACTOR shall not make any reductions in scope of coverage (e.g. elimination of contractual liability or reduction of discovery period) that may affect CITY's protection without CITY's prior written consent.

7.06 CONTRACTOR agrees to provide immediate notice to CITY of any claim or loss against CONTRACTOR or arising out of the Services performed under this Agreement. CITY assumes no obligation or liability by such notice, but has the right (but not the duty) to monitor the handling of any such claim or claims if they are likely to involve CITY.

## 8. Indemnification.

8.01 CONTRACTOR and CITY agree that CITY, its employees, agents and officials should, to the extent permitted by law, be fully protected from any loss, injury, damage, claim, lawsuit, cost, expense, attorneys' fees, litigation costs, defense costs, court costs or any other costs arising out of or in any way related to the performance of this Agreement by CONTRACTOR or any subcontractor or agent of either as set forth herein. Accordingly, the provisions of this indemnity are intended by the parties to be interpreted and construed to provide the fullest protection possible under the law to CITY. CONTRACTOR acknowledges that CITY would not enter into this Agreement in the absence of the commitment of CONTRACTOR to indemnify and protect CITY as set forth herein.

a. To the fullest extent permitted by law, CONTRACTOR shall defend, indemnify and hold harmless CITY, its employees, agents and officials, from any liability, claims, suits, actions, arbitration proceedings, administrative proceedings, regulatory proceedings, losses, expenses, damages or costs of any kind, whether actual, alleged or threatened, actual attorneys' fees incurred by CITY, court costs, interest, defense costs, including expert witness fees and any other costs or expenses of any kind whatsoever without restriction or limitation incurred in relation to, as a consequence of or arising out of, or in any way attributable actually, allegedly or impliedly, in whole or in part to the performance of this Agreement. CONTRACTOR's obligation to defend, indemnify and hold harmless shall include any and all claims, suits and proceedings in which CONTRACTOR (and/or CONTRACTOR's agents and/or employees) is alleged to be an employee of CITY. All obligations under this provision are to be paid by CONTRACTOR as they are incurred by CITY.



b. Without affecting the rights of CITY under any provision of this Agreement or this Section, CONTRACTOR shall not be required to indemnify and hold harmless CITY as set forth above for liability attributable solely to the fault of CITY, provided such fault is determined by agreement between the parties or the findings of a court of competent jurisdiction.

9. Additional Services, Changes and Deletions.

9.01 In the event CONTRACTOR performs additional or different services than those described herein without the prior written approval of the City Manager and/or City Council of CITY, CONTRACTOR shall not be compensated for such services. CONTRACTOR expressly waives any right to be compensated for services and materials not covered by the scope of this Agreement or authorized by the CITY in writing.

9.02 CONTRACTOR shall promptly advise the City Manager and Finance Director of CITY as soon as reasonably practicable upon gaining knowledge of a condition, event or accumulation of events which may affect the scope and/or cost of Services. All proposed changes, modifications, deletions and/or requests for additional services shall be reduced to writing for review and approval by the CITY and/or City Council.

10. Termination of Agreement.

10.01 Notwithstanding any other provision of this Agreement, CITY, at its sole option, may terminate this Agreement with or without cause, or for no cause, at any time by giving twenty (20) days' written notice to CONTRACTOR.

10.02 In the event of termination, the payment of monies due CONTRACTOR for undisputed Services performed prior to the effective date of such termination shall be paid within thirty (30) business days after receipt of an invoice as provided in this Agreement. Immediately upon termination, CONTRACTOR agrees to promptly provide and deliver to CITY all original documents, reports, studies, plans, specifications and the like which are in the possession or control of CONTRACTOR and pertain to CITY.

11. Status of CONTRACTOR.

11.01 CONTRACTOR shall perform the Services in CONTRACTOR's own way as an independent contractor, and in pursuit of CONTRACTOR's independent calling, and not as an

employee of CITY. However, CONTRACTOR shall regularly confer with CITY's City Manager as provided for in this Agreement.

11.02 CONTRACTOR agrees that it is not entitled to the rights and benefits afforded to CITY's employees, including disability or unemployment insurance, workers' compensation, retirement, CalPers, medical insurance, sick leave, or any other employment benefit. CONTRACTOR is responsible for providing, at its own expense, disability, unemployment, workers' compensation and other insurance, training, permits, and licenses for itself and its employees and subcontractors.

11.03 CONTRACTOR hereby specifically represents and warrants to CITY that it possesses the qualifications and skills necessary to perform the Services under this Agreement in a competent, professional manner, without the advice or direction of CITY and that the Services to be rendered pursuant to this Agreement shall be performed in accordance with the standards customarily applicable to an experienced and competent professional rendering the same or similar services in the same geographic area where the CITY is located. Further, CONTRACTOR represents and warrants that the individual signing this Agreement on behalf of CONTRACTOR has the full authority to bind CONTRACTOR to this Agreement.

12. Ownership of Documents; Audit.

12.01 All draft and final reports, plans, drawings, studies, maps, photographs, specifications, data, notes, manuals, warranties and all other documents of any kind or nature prepared, developed or obtained by CONTRACTOR in connection with the performance of Services performed for the CITY shall become the sole property of CITY, and CONTRACTOR shall promptly deliver all such materials to CITY upon request. At the CITY's sole discretion, CONTRACTOR may be permitted to retain original documents, and furnish reproductions to CITY upon request, at no cost to CITY.

12.02 Subject to applicable federal and state laws, rules and regulations, CITY shall hold all intellectual property rights to any materials developed pursuant to this Agreement. CONTRACTOR shall not such use data or documents for purposes other than the performance of this Agreement, nor shall CONTRACTOR release, reproduce, distribute, publish, adapt for future use or any other purposes, or otherwise use, any data or other materials first produced in the performance of this Agreement, nor authorize others to do so, without the prior written consent of CITY.

12.03 CONTRACTOR shall retain and maintain, for a

period not less than four years following termination of this Agreement, all time records, accounting records and vouchers and all other records with respect to all matters concerning Services performed, compensation paid and expenses reimbursed. At any time during normal business hours and as often as CITY may deem necessary, CONTRACTOR shall make available to CITY's agents for examination all of such records and shall permit CITY's agents to audit, examine and reproduce such records.

13. Miscellaneous Provisions.

13.01 This Agreement, which includes all attached exhibits, supersedes any and all previous agreements, either oral or written, between the parties hereto with respect to the rendering of Services by CONTRACTOR for CITY and contains all of the covenants and agreements between the parties with respect to the rendering of such Services in any manner whatsoever. Any modification of this Agreement will be effective only if it is in writing signed by both parties.

13.02 CONTRACTOR shall not assign or otherwise transfer any rights or interest in this Agreement without the prior written consent of CITY. Unless specifically stated to the contrary in any written consent to an assignment, no assignment will release or discharge the assignor from any duty or responsibility under this Agreement.

13.03 CONTRACTOR shall timely file FPPC Form 700 Conflict of Interest Statements with CITY if required by California law and/or the CITY's conflict of interest policy.

13.04 If any legal action or proceeding, including an action for declaratory relief, is brought to enforce or interpret the provisions of this Agreement, the prevailing party will be entitled to reasonable attorneys' fees and costs, in addition to any other relief to which that party may be entitled.

13.05 This Agreement is made, entered into and shall be performed in the County of Riverside in the State of California and shall in all respects be interpreted, enforced and governed under the laws of the State of California.

13.06 CONTRACTOR covenants that neither it nor any officer or principal of its firm has any interest, nor shall they acquire any interest, either directly or indirectly, which will conflict in any manner or degree with the performance of their Services hereunder. CONTRACTOR further covenants that in the performance of this Agreement, no person having such interest shall be employed by it as an officer, employee,

agent, or subcontractor.

13.07 CONTRACTOR has read and is aware of the provisions of Section 1090 et seq. and Section 87100 et seq. of the Government Code relating to conflicts of interest of public officers and employees. CONTRACTOR agrees that they are unaware of any financial or economic interest of any public officer or employee of the CITY relating to this Agreement. It is further understood and agreed that if such a financial interest does exist at the inception of this Agreement, the CITY may immediately terminate this Agreement by giving notice thereof. CONTRACTOR shall comply with the requirements of Government Code section 87100 et seq. and section 1090 in the performance of and during the term of this Agreement.

13.08 Improper Consideration. CONTRACTOR shall not offer (either directly or through an intermediary) any improper consideration such as, but not limited to, cash, discounts, services, the provision of travel or entertainment, or any items of value to any officer, employee or agent of the CITY in an attempt to secure favorable treatment regarding this Agreement or any contract awarded by CITY. The CITY, by notice, may immediately terminate this Agreement if it determines that any improper consideration as described in the preceding sentence was offered to any officer, employee or agent of the CITY with respect to the proposal and award process of this Agreement or any CITY contract. This prohibition shall apply to any amendment, extension or evaluation process once this Agreement or any CITY contract has been awarded. CONTRACTOR shall immediately report any attempt by any CITY officer, employee or agent to solicit (either directly or through an intermediary) improper consideration from CONTRACTOR.

13.09 Severability. If any portion of this Agreement is declared invalid, illegal or otherwise unenforceable by a court of competent jurisdiction, the entire balance of this Agreement not so affected shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereby have made and executed this Agreement to be effective as of the day and year first above-written.

**CITY:**

**CONTRACTOR:**

CITY OF BEAUMONT

\_\_\_\_\_

By:

By:

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Mayor

Rey Santos,

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Print Name:

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Title:

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EXHIBIT "A"

PROPOSAL

(insert behind this page)

EXHIBIT "B"

CERTIFICATES OF INSURANCE AND ENDORSEMENTS A

(insert behind this page)

## **Attachment II**

### **Scope of Services**

The City of Beaumont intends to obtain the services of a qualified firm to provide the services as outlines below. Best industry practices and/or best management practices may require additional services not explicitly enumerated. The proposer should identify any additional services required, price them, and explain them in their response.

Specific services, although not all-inclusive, to be performed are as follows:

1. Manage the City and Agency portfolios with semi-discretionary authority. Discretionary authority shall be granted unless the diversification of the portfolio will materially change the liquidity of the portfolio by 10% or more and/or a material change to the diversification of the portfolio by 15% or more, which would require prior authorization from the City.
2. Assist the City/Agency with cash flow/maturity analysis.
3. Provide credit analysis of investment instruments in portfolio.
4. Provide monthly/quarterly/annual reporting for the City/Agency managed funds.
5. Attend quarterly meetings (in person or via teleconference) with City staff and Investment Committee.
6. Evaluate market risk and develop strategies that minimize the impact on the portfolio.
7. Provide assurance of portfolio compliance with applicable policies and laws.
8. Establish an appropriate benchmark in addition to the LAIF rate as a benchmark. All earnings should be comparable at a net of fees.
9. Ensure that the portfolio structure matches the City/Agency objectives.
10. Review the City's Investment Policy and make recommendations for changes, as appropriate.
11. Assist the City in establishing and maintaining an authorized broker/dealer list pursuant to the Investment Policy.

Investment practices and procedures must comply with state law, the City's Investment Policy, and any other applicable laws or regulations. The investment advisory firm will be expected to perform to the Prudent Expert Standard.

#### **A. Project Deliverables**

As part of the scope of services, the Advisor will also be required to provide the



following deliverable products:

1. **Monthly and Quarterly Reports.** Successful Proposer shall provide monthly and quarterly reports that meet all requirements of the City's Investment Policy and be prepared in accordance with Generally Accepted Accounting Principles (GAAP) and in compliance with Government Accounting Standards Board (GASB) pronouncements, including GASB Statements 31 and 40 and should include the following:
  - a. **Summary of Portfolio Holdings.** A listing of all securities held at the end of the month categorized by type of security, maturity and institution.
  - b. **Investment Performance Report.** At a minimum, the performance report should show total returns for the period compared to the established benchmark.
  - c. **Maturity/Duration Indicators.** The monthly report should include portfolio duration and average maturity statistics to help monitor interest-rate risk.
  - d. **Transaction Summary.** A summary of completed transactions for the month.
  - e. **Mark-to-Market Report.** The monthly report should show the cost and market value for each security in the portfolio.
  - f. **Market Commentary.** The monthly and quarterly reports should contain general commentary on the market, trends that might affect performance, future outlook and other information as deemed appropriate.

All reports shall be due to the City within 30 days of the end of the reporting period.

2. **Attendance at Meetings and Hearings.** As part of the work scope and included in the contract price is attendance by the Advisor at as many "working" meetings with staff as necessary in performing work scope tasks.
3. **Services to Other Clients.** It is understood that the Advisor performs investment management services for other clients. It is understood that the Advisor shall not have any obligations to purchase or sell for the City account any security which the Advisor, its principals, affiliates or employees may purchase or sell for its or their own account or for the account of any client, if in the Advisor's good faith opinion such transaction or investment unsuitable, impractical or undesirable for the City account.
4. **Allocation of Brokerage.** Where the Advisor places orders for the execution of portfolio transactions for the City account, the Advisor may allocate such transactions to such brokers and dealers for execution on

such markets, at such prices and at such commission rates as in the good faith judgement of the Advisor will be in the best interest of the City. The Advisor shall receive no soft dollar benefit for any transaction placed on behalf of the City.

**B. Terms of Service**

The terms of service will be for a period of three years, with two one year options, which may be exercised at the City's discretion. An option for early termination of the contract may be exercised by the City for persistent non-responsiveness by the firm to City questions or requests or for failure to meet the standards set by the City.

**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. 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.

## **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 an 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

INVESTMENT TYPE	MAXIMUM MATURITY <sup>c</sup>	MAXIMUM SPECIFIED % OF PORTFOLIO <sup>d</sup>	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% <sup>e</sup>	None	53601(g)
Commercial Paper—Non-Pooled Funds <sup>f</sup>	270 days or less	25% of the agency's money <sup>g</sup>	Highest letter and number rating by an NRSRO <sup>h</sup>	53601(h)(2)(C)
Commercial Paper—Pooled Funds <sup>i</sup>	270 days or less	40% of the agency's money <sup>g</sup>	Highest letter and number rating by an NRSRO <sup>h</sup>	53635(a)(1)
Negotiable Certificates of Deposit	5 years	30% <sup>j</sup>	None	53601(i)
Non-negotiable Certificates of Deposit	5 years	None	None	53630 et seq.
Placement Service Deposits	5 years	50% <sup>k</sup>	None	53601.8 and 53635.8
Placement Service Certificates of Deposit	5 years	50% <sup>k</sup>	None	53601.8 and 53635.8
Repurchase Agreements	1 year	None	None	53601(j)
Reverse Repurchase Agreements and Securities Lending Agreements	92 days <sup>l</sup>	20% of the base value of the portfolio	None <sup>m</sup>	53601(j)
Medium-Term Notes <sup>n</sup>	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 <sup>o,p</sup>	53601(l) and 53601.6(b)
Collateralized Bank Deposits <sup>q</sup>	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 <sup>r</sup>	53601(p)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Voluntary Investment Program Fund <sup>t</sup>	N/A	None	None	16340
Supranational Obligations <sup>u</sup>	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

AGENCIES