



# CITY OF HAWTHORNE

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Subject:	<b>Investment Policy</b>	Department:	<b>Finance</b>
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## **1.0 INTRODUCTION**

The City Council of the City of Hawthorne, along with City management, has a desire to serve the public's best interest in regard to fiscal operations and accountability. This policy has been developed to formalize the City's intent to provide prudent and systematic investments and to organize and formalize investment-related activities.

Areas that coincide with other city policies shall make reference, but not override other policies placed in effect through City Council action. Updates for this policy shall be provided on an as-needed basis or as required through compliance to federal or state mandates through annual review and adoption at a regular meeting by the City Council.

## **2.0 POLICY STATEMENT**

The City of Hawthorne (referred to as "the City"), through adoption of this policy, shall invest public funds in a manner that will provide the maximum security of principal invested while meeting the daily cash flow needs of the City. There is a subordinate emphasis on providing the highest yield on principal. Further, the City will conform to all applicable Federal, State, and City statutes governing the investment of public funds.

## **3.0 SCOPE**

The scope of this investment policy applies to all financial assets and funds held by the City and its component units. These funds are defined in the City's Comprehensive Annual Financial Report (CAFR) and include any new funds created unless specifically exempted by City Council.

## **4.0 OBJECTIVES**

The primary objectives, in priority order, of the City's investment activities shall be:

- 4.1 **SAFETY OF PRINCIPAL:** Safety of principal is the foremost objective of the City. The investment of city funds shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain this goal, diversification is required in the portfolio's composition.
- 4.2 **LIQUIDITY:** The City's investment portfolio will remain sufficiently liquid to enable it to meet the operating requirements that might be reasonably anticipated.
- 4.3 **YIELD:** The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into consideration the City's risk constraints and the cash flow of the portfolio. "Market rate of return" may be defined as the average yield of the 90-day U.S. Treasury Bill or such other index that most closely matches the average maturity of the portfolio.
- 4.4 **DIVERSIFICATION:** The investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.

## **5.0 DELEGATION OF AUTHORITY**

The City Treasurer is designated as the investment officer of the City and is responsible for investment management decisions and activities. The City Treasurer shall designate a staff person as a liaison/deputy in the event circumstances require timely action and the City Treasurer is not present. No officer or liaison/deputy may engage in an investment transaction except as provided under terms of this policy and the procedures established by the City Treasurer and approved by the City Council.

## **6.0 PRUDENCE**

The standard of prudence to be used in the investment function shall be the “prudent person” standard and shall be applied in the context of managing the overall portfolio. This standard states that investments shall be made with the 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 expected income to be derived.

## **7.0 MAINTAINING THE PUBLIC TRUST**

All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

## **8.0 AUTHORIZED INVESTMENTS**

Investment of city funds is governed by the California Government Code Sections 53600 seq. Within the context of the limitations, the following investments are authorized, as further limited herein:

- 8.1 United States Treasury bills, bonds, and notes or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio that can be invested in this category, although a five-year maturity limitation is applicable.
- 8.2 Federally sponsored agency securities including obligations issued by the Government National Mortgage Association (GNMA), the Federal Farm Credit System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal National Mortgage Association (FNMA), the Student Loan Marketing Association (SLMA), and the Federal Home Loan Mortgage Corporation (FHLMC). There is no percentage limitation of the portfolio that can be invested in this category although a five-year maturity limitation is applicable.
- 8.3 Fully insured or collateralized certificates of deposit and other evidence of deposit at banks and savings and loan associations.
- 8.4 Banker’s Acceptances issued by the 10 largest domestic banks and the 20 largest international banks.

- 8.5 Commercial paper rated A-1/P-1.
- 8.6 Negotiable certificates of deposit.
- 8.7 Passbook savings accounts.
- 8.8 Mutual funds.
- 8.9 Medium term corporate notes domiciled within the United States and having a minimum rating of “A” or better.
- 8.10 Local Agency Investment Fund (LAIF) which is a State of California managed investment pool may be used up to the maximum permitted by California State Law.

The aforementioned authorized federal agency securities shall not include any federal agency securities issued in the form of variable rate instruments without a floor, mortgage derived interest only strips, range notes, or any investment that could result in zero interest if held to maturity. Any State of California legislative action that further restricts allowable maturities, investment type or percentage allocations, will be incorporated into the City’s Investment Policy and supersede any and all previous applicable language.

## **9.0 DIVERSIFICATION AND MATURITY LIMITATIONS**

It is the policy of the City to diversify its investment portfolio. Invested funds shall be diversified to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed. At a minimum diversification standards by security type and issuer shall be:

### **0% to 100%**

- U.S. Treasury bills, bonds and notes having principal and interest guaranteed by the U.S. Government.
- U.S. Government Agency Securities.
- Local Agency Investment Fund (\$40,000,000 maximum).

### **0% to 30%**

- Banker’s Acceptances.
- Negotiable Certificates of Deposit.

### **0% to 25%**

- Fully insured or collateralized Certificates of Deposit.
- Medium term corporate notes.

### **0% to 15%**

- Mutual funds.
- Commercial Paper rated A-1/P-1.

The City Treasurer shall be required to diversify maturities. The Treasurer will attempt to match investments with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a

specific requirement the City will not directly invest in securities maturing more than 5 years from the date of purchase. The City will make every effort to keep the average days to maturity less than 3 years.

#### **10. SAFEKEEPING AND COLLATERAL**

A third party custodian designated by the Treasurer shall hold all securities. The third party custodian shall be required to issue a safekeeping receipt to the City listing the specific instrument, rate, maturity and other pertinent information. In order to conform with the provisions of the Federal Bankruptcy Code which provides for liquidation of securities held as collateral, the only securities acceptable as collateral shall be certificates of deposit, commercial paper, eligible Banker's Acceptances, medium term notes or securities that are the direct obligations of, or are fully guaranteed as to principal and interest by, the United States or any agency of the United States.

#### **11. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

The Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of California. These may include primary dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the City Treasurer with the following;

- Audited financial statements.
- Proof of National Association of Security Dealers certification.
- Proof of state registration.
- Certification of having read the City of Hawthorne's investment policy.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the City Treasurer before the commencement of each fiscal year.

#### **12. INTERNAL CONTROL**

The City Treasurer shall establish appropriate procedures designed to provide proper control over investments and the deposit of cash received from other departments. On an annual basis, these controls will be reviewed in conjunction with the annual audit of the City.

#### **13. INVESTMENT OF DEBT PROCEEDS**

Proceeds of debt issuances shall be invested pursuant to the requirements of related debt agreements, rather than the requirements of this policy.

#### **14. REPORTING**

The City Treasurer shall review and render quarterly reports to the City Council, City Manager, and Finance Director within thirty (30) days of the end of the quarter. These reports shall include the face amount of the cash investment, the classification of the investment, the name of the institution or entity, the rate of interest, the maturity date and the current market value.