

CITY OF HALF MOON BAY INVESTMENT POLICY

POLICY OVERVIEW

PURPOSE

The purpose of this policy is to establish guidelines for the management and investment of the unexpended funds of City of Half Moon Bay (the City) under authority granted by the City Council. This policy is in compliance with the provisions of California Government Code Sections 53600 through 53684, governing investments for municipal governments.

INVESTMENT OBJECTIVES

The primary objectives of this investment policy, in order of priority, are safety, liquidity, and yield:

1. **Safety** - Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. This objective shall be accomplished by mitigating credit risk and market risk.
2. **Liquidity** - The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This objective shall be accomplished by structuring the portfolio so that securities mature concurrently with anticipated needs. The portfolio shall consist largely of securities with active secondary or resale market. Furthermore, a portion of the portfolio may be placed in money market mutual funds or the Local Agency Investment Fund (LAIF) which offer same-day liquidity for short-term funds.
3. **Yield** - The objective of the investment portfolio is designed to attain a market rate of return throughout budgetary and economic cycles, taking into consideration the investment risk constraints and liquidity needs. Investment performance shall be continually monitored and evaluated by the City Treasurer in comparison with other portfolio benchmark yields.

SCOPE

The investment policy applies to all financial assets of the City as accounted for in the Basic Financial Statements. It includes, but is not limited to, the funds listed below:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Debt Service Fund
- Enterprise Funds

- Internal Service Funds
- Trust and Agency Funds
- Any new fund created by the City, unless specifically exempted, with the exception of the following:
 1. The City's Deferred Compensation Plan, which is excluded because it is managed by a third-party administrator and invested by individual plan participants.
 2. Proceeds of debt issuance shall be invested in accordance with the investment objectives of this policy. However, such proceeds are generally invested in accordance with permitted investment provisions of their specific bond indentures. If, in the opinion of the City Treasurer, the matching of bond reserve or escrow defeasance funds with the maturity schedule of an individual bond issue is prudent, the investment policy authorizes an extension beyond the five-year maturity limitation as outlined in this document.

USE OF STATE INVESTMENT GUIDELINES

California Government Code Sections 53600 through 53692 regulates the investment practices of public entities. It is the policy of the City to use the State's provisions for local government investments as the basis for developing and implementing the City's investment policies and practices.

STANDARDS OF CARE

1. **Prudence** - The City's investment officials shall act as fiduciary agents subject to the Prudent Investor Standard. Investments shall be 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. The City Manager, City Treasurer (Finance Manager), and other individuals assigned to manage the investment portfolio, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.
2. **Ethics and Conflict of Interest** - Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or could impair their ability to make impartial investment decisions. City employees involved in the investment process shall

disclose to the City Clerk in writing any material financial interest in financial institutions that conduct business within the jurisdiction. They shall further disclose any large personal financial/investment positions that could be related to the performance of the investment portfolio.

3. **Delegation of Authority** - Authority to manage the investment program is granted to the City Manager and City Treasurer (designee Administrative Services Director) and derived from Chapter 2.12 and 2.16 of the City of Half Moon Bay Municipal Code. Under the oversight of the City Manager and the City Treasurer, specified responsibility for the operation of the investment program may be delegated to the Senior Accounting Technician, who shall act in accordance with established written procedures and internal controls consistent with the investment policy. The City Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate staff members. The internal controls system includes separation of duties, custodial safekeeping, avoidance of physical delivery securities, development of wire transfer agreement, and clear delegation of authority to subordinate staff members.

The City may delegate its investment authority to an investment advisor registered under the Investment Advisers Act of 1940, so long as it can be demonstrated that these services produce a net financial advantage or necessary financial protection of the City's financial resources. The adviser shall follow this policy, and any other written instructions.

INVESTMENT GUIDELINES

SAFETY OF PRINCIPAL

Safety of principal is the primary objective of the City of Half Moon Bay. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker/dealer default or erosion of market value. The City shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.

Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer does not unduly harm the City's capital base and cash flow.

Market risk, defined as market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by limiting the average maturity of the City's investment portfolio to two years, the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis eliminating the need to sell securities prior to maturity and avoiding the purchase of long term securities for the sole purpose of short term speculation.

LIQUIDITY

The City's financial portfolio shall be structured in a manner to ensure that the securities mature concurrent with anticipated cash demands. The portfolio should consist largely of securities with an active secondary or resale market to meet any unanticipated cash demands. A portion of the portfolio may be placed in money market mutual funds or LAIF, which offer same day liquidity for short- term funds.

It is the full intent of the City to hold all investments until maturity to ensure the return of all invested principal. However, securities may be sold prior to maturity under the following circumstances:

- To minimize loss of principal for a security with declining credit.
- When liquidity needs of the portfolio require that the security is sold.

INVESTMENT PARAMETERS

1. **Diversification** - The City shall diversify its investments within the parameters of this policy to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. Nevertheless, the asset allocation in the investment portfolio should be flexible depending upon the outlook for the economy, the securities markets, and the City's anticipated cash flow needs.

The investments shall be diversified by:

- Limiting investments in securities to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities);
- Limiting investment in securities that have higher credit risks;
- Investing in securities with varying maturities; and
- Continuously investing a portion of the portfolio in readily available funds such as LAIF or money market mutual funds to ensure that appropriate liquidity is maintained in order to meet unanticipated cash demands.

2. **Maximum Maturities-** To the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow of bond proceeds or bond defeasance escrow, the City will not directly invest in securities maturing more than five (5) years from the date of purchase. As a general rule, the weighted average maturity of the investment portfolio will not exceed two years.

Reserve or escrow funds established by the issuance or defeasance of bonds and other funds with longer-term investment horizons may be invested in securities exceeding five years if the maturities of such investments are made to coincide with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the City Council.

3. **Competitive Bidding** - It is the policy of the City to encourage competitive bidding for investment transactions that are not classified as "new issue" securities. For the purchase of non "new issue" securities and the sale of all securities at least three bidders must be contacted. However, it is understood that certain time constraints and broker portfolio limitations exist which will not accommodate the competitive bidding process. If a time or portfolio constraining condition exists, the pricing of the investment should be verified to current market conditions and documented for auditing purposes.

PERFORMANCE EVALUATION AND BENCHMARK

Investment performance is continually monitored and evaluated by the City Treasurer. The investment portfolio benchmark yield shall be the average yield on the U.S. Treasury security that most closely corresponds to the portfolio's weighted average final maturity.

PROTECTION OF SECURITIES

To protect against fraud, embezzlement, or losses caused by the collapse of an individual securities dealer:

- 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 or master repurchase agreement. All trades executed by a dealer will settle delivery vs. payment (DVP) through the City's safekeeping agent.

-or-

- All securities owned by the City shall be insured by a third-party insurer and the City shall be named as insured on that policy.

Securities held in custody for the City shall be independently audited on an annual basis to verify investment holdings.

INTERNAL CONTROL

The City Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits to be derived and that the valuation of costs and benefits requires estimates and judgments by management.

If the City's investment portfolio includes more than pooled investments, an external auditor shall conduct an annual independent review to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and record keeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian

INVESTMENT REPORTS

The City Treasurer shall review investments and render quarterly reports to the City Manager and City Council. These reports shall include:

- The par amount of the investment, the classification of the investment, the percentage of the total portfolio which each type of investment represents, the name of the institution or entity, the rate of interest, the maturity date, the current market value, and the source of the market value.
- A statement that the projected cash flow is adequate to meet expected obligations over the next six months.
- The weighted average maturity of the portfolio.
- The average weighted yield to maturity of the portfolio as compared to the applicable benchmark.
- Statement of compliance with the investment policy.

This report is due within 30 days of the end of the quarter. The City Manager may, at his/her discretion, require this report on a monthly basis based upon market conditions.

QUALIFIED BANKS AND BROKER/DEALERS

The City shall transact business with financial institutions that qualify as a depository of public funds in the State of California as defined in California Government Code Section 53630.5. The institution shall be a member of the FDIC and shall secure all deposits exceeding FDIC insurance coverage in accordance with California Government Code Section 53652.

All broker/dealers who desire to do business with the City shall provide the necessary information (e.g. audited financial statements, proof of state registration, proof of National Association of Securities Dealers certification, etc.) from which the City can determine their creditworthiness, the existence of any pending legal action against the firm or the individual broker as well as an understanding of the security markets that they service. To be eligible, a firm must be licensed by the State of California as a broker/dealer as defined in Section 25004 of the California Corporations Code.

The City Treasurer shall annually send a copy of the current investment policy to all financial institutions and broker/dealers approved to do business with the City. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the City's investment policies and intends to sell the City only appropriate investments authorized by this investment policy.

COLLATERAL REQUIREMENTS

Collateral is required for investments in non-negotiable certificates of deposit and repurchase agreements. In order to reduce market risk, the collateral level shall be at least 102% of market

value of principal and accrued interest and marked to market weekly. Securities that are acceptable as collateral shall be the direct obligations of the United States or any agency of the United States or shall be fully guaranteed as to principal and interest by the United States or any agency of the United States.

AUTHORIZED INVESTMENTS

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

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, which can be invested in this category, although a five-year maturity limitation is applicable.
2. **Government Sponsored Enterprises** - Obligations issued by Federal Government agencies such as the Government National Mortgage Association (GNMA), the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (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, which can be invested in this category, although a five-year maturity limitation is applicable.
3. **Banker's Acceptances** - Bills of exchange or time drafts drawn on and accepted by commercial banks, otherwise known as banker's acceptances, may not exceed 180 days maturity or 20% of the cost value of the portfolio. Furthermore, no more than 5% of the cost value of the portfolio may be invested in the banker's acceptances of any one commercial bank.
4. **Commercial Paper** - Commercial paper is a short-term, unsecured promissory note issued by financial and non-financial companies to raise short term cash. Up to 15% of the City's portfolio may be invested in "prime" commercial paper of the highest ranking or of the highest letter and number rating as provided by a nationally recognized statistical rating organization (Moody's or Standard and Poor's) and with maturities not to exceed 180 days. The issuer must have total assets in excess of \$500 million, and have debt other than Commercial paper rated "A" or higher by two nationally recognized statistical rating organizations. The City may not hold more than 2% of a single issuer's outstanding paper.
5. **Negotiable Certificates of Deposit** -- Purchases of negotiable certificates of deposit issued by nationally or state-chartered banks, state or federal savings institutions, or state-licensed branches of foreign banks may not exceed 30% of the cost value of the

portfolio. The City may not invest in an institution where a member of City Council, City management, or City Treasurer serves on the board or committee of the institution. Funds will only be invested in Certificates of Deposits that are fully insured by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation (FSLIC) in amounts up to \$100,000. A maturity limitation of two years is applicable.

6. **Repurchase Agreements** - Repurchase agreements may be made on any investment authorized by this investment policy. The maturity of the repurchase agreements shall not exceed one year. The market value of the securities used as collateral for the repurchase agreements shall be monitored by the investment staff weekly and shall not be allowed to fall below 102% of the value of the repurchase agreement. A Master Repurchase agreement is required between the City and the dealer for all repurchase agreements transacted. No more than 5% of the City's investment portfolio may be invested with any one counter party, and the aggregate investment in repurchase agreements shall not exceed 10% of the City's total portfolio.
7. **Local Agency Investment Fund (LAIF)** - a State of California managed investment pool may be used up to the maximum permitted by California State Law.
8. **San Mateo County Investment Pool** - a County of San Mateo managed investment pool may be used up to the maximum of 100% of the cost value of the portfolio.
9. **Time Certificates of Deposit** - Time certificates of deposit, non- negotiable and collateralized in accordance with the California Government Code, may be purchased through banks or savings and loan associations. Since time deposits are not liquid, no more than 10% of the investment portfolio may be invested in this investment type. A maturity limitation of two years is applicable.
10. **Medium Term Corporate Notes** – defined as corporate and depository institution debt securities, with a maximum maturity of five years, may be purchased. Securities eligible for investment shall be rated AA or better by a nationally recognized securities rating organization (Moody's or Standard & Poor's). Purchase of medium-term notes may not exceed 10% of the cost value of the portfolio and no more than 10% of the cost value of the portfolio may be invested in notes issued by one corporation. Commercial paper holdings should also be included when calculating the 10% limitation
11. **Money Market Mutual Funds** - Mutual funds invested in U.S. Government securities are permitted under this policy and under California Government Code Section 53601(L). All of the following criteria must also be met: (1) The fund shall have a minimum of \$500 million in total portfolio value; (2) The fund shall be registered with the Securities and Exchange Commission, and shall have achieved the highest ranking or the highest letter

and numerical rating provided by not less than two nationally recognized statistical rating organizations; (3) The fund shall have retained an advisor which is registered with the SEC, or which is exempt from such registration; Investment in such funds shall not exceed 20% of the City's total portfolio; and no more than 5% of the City's total portfolio may be invested in any one mutual fund.

12. Moneys Held By a Trustee or Fiscal Agent - Moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness obligation under a lease, installment sales or other agreement may be invested in accordance with the statutory provisions governing the issuance or defeasance of the bonds or obligation.

13. Prohibited/Ineligible Investments - Ineligible investments are those that are not described herein, including but not limited to, common stocks, reverse repurchase agreements, inverse floaters, range notes, mortgage derived interest only strips, derivatives securities, or any security that could result in zero interest accrual. (Sec. 53601.6)

Maximum Investment Maturity and Percentage - The following matrix of maximum maturity and percentage limits, by instrument, are established for the City's total pooled funds portfolio:

Investment Type	Maturity	Percentage
Repurchase Agreements	1 Year	0 to 100%
Local Agency Investment Fund	Upon Demand	0 to 100%
San Mateo County Investment Pool	Upon Demand	0 to 100%
U.S. Treasury Bonds/Notes/Bills	5 Years	0 to 100%
Government Sponsored Enterprises	5 Years	0 to 100%
Bankers' Acceptances	180 Days	0 to 20%
Commercial Paper	180 Days	0 to 15%
Negotiable Certificates of Deposit	2 Years	0 to 30%
Time Certificates of Deposit	2 Years	0 to 10%
Medium Term Corporate Notes	5 Years	0 to 20%
Mutual Funds/Money Market Funds	Upon Demand	0 to 20%

LEGISLATIVE CHANGES

Any State of California legislative action that further restricts allowable maturities, investment types, or percentage allocations, supersedes any and all previous applicable language in this Investment Policy.

INTEREST EARNINGS

All moneys earned and collected from investments authorized in this policy shall be allocated quarterly to various fund accounts based on the (average 13 months) cash balance in each fund as a percentage of the entire pooled portfolio.

POLICY CONSIDERATIONS

The following policy considerations apply:

1. Exemption - Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.
2. Amendments - The City's investment policy shall be adopted by resolution of the City Council on an annual basis. This investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and yield, and its relevance to current law and financial and economic trends.

RESOLUTION No. C-2021-44

**A RESOLUTION OF THE CITY OF HALF MOON BAY APPROVING THE
CITY OF HALF MOON BAY INVESTMENT POLICY**

WHEREAS, the investment policy is reviewed each year by City Council in accordance with the City of Half Moon Bay's Investment Policy;

WHEREAS, the investment policy has been reviewed to ensure any necessary updates have been incorporated;

WHEREAS, there is no change in the investment policy at this time.

NOW, THEREFORE, BE IT RESOLVED THAT

The City Council of the City of Half Moon Bay hereby approves the City of Half Moon Bay's Investment Policy as contained in Exhibit A attached hereto.

I, the undersigned, hereby certify that the forgoing Resolution was duly passed and adopted on the 15th day of June, 2021 by the City Council of Half Moon Bay by the following vote:

AYES, Councilmembers: Jimenez, Penrose, Rarback, Ruddock, Brownstone

NOES, Councilmembers:

ABSENT, Councilmembers:

ABSTAIN, Councilmembers:

ATTEST:

Jessica Blair

Jessica Blair, City Clerk

APPROVED:

Robert Brownstone

Robert Brownstone, Mayor