

CITY OF SIGNAL HILL STATEMENT OF INVESTMENT POLICY

PURPOSE

The purpose of this statement is to comply with the requirements of California Government Code Section 53646 and to provide clear guidance for the investment of all monies of the City of Signal Hill.

INVESTMENT OBJECTIVES

The investment of the funds of the City of Signal Hill is directed to the goals of safety, liquidity, and high yield. The authority governing investments for municipal governments and units of local government such as the Signal Hill Successor Agency is set forth in the Government Code, Sections 53601, et. seq.

The primary objective of the investment policy of the City of Signal Hill is safety. Most investments will be highly liquid. Maturities will be selected to anticipate cash needs, thereby avoiding the need for forced liquidation. Within the constraints of safety and liquidity, the highest and best yield will be sought.

INVESTMENT PHILOSOPHY

The City's investment philosophy is to invest conservatively in order to minimize risk. Investments shall be made in the context of the Prudent Investor Rule for trustees of local government money, which is defined in Government Code Section 53600.3:

When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

- Diversification of the portfolio by investment type,
- Quality standards for securities issuers,
- Limits on the maximum maturity of investments,
- Passive investment strategy of purchasing investments with the intent to hold them until maturity.

The City's passive investment strategy will not prohibit the city from selling a security prior to its maturity and recording a gain or loss in order to improve the quality,

liquidity, or yield of the portfolio in response to market conditions or City needs. However, the City philosophy prohibits speculation, i.e., the purchase of securities with the intent of profit from favorable changes in market prices or market conditions. Leveraging or borrowing money for the purpose of investing is specifically prohibited.

LEGAL AND POLICY CONSTRAINTS

The City of Signal Hill does not purchase or sell securities on margin.

The City of Signal Hill does not use Reverse Repurchase Agreements for the investment of funds.

The City of Signal Hill shall transact business only with banks, savings and loans, broker/dealers, and authorized investment pools. The broker/dealers should be primary dealers regularly reporting to the New York Federal Reserve Bank. Exceptions will be made only upon written authorization by the Director of Finance. Investment staff shall investigate dealers who wish to do business with the City to determine if they are adequately capitalized, have pending legal action against the firm or the individual broker and make markets in the securities appropriate to the City's needs.

For Repurchase Agreements, the acceptable collateral is U.S. Treasury Issues or Federal Agency Issues (i.e., FNMA, FHLB, FFCB, GNMA). A statement showing the type of collateral being utilized must be forwarded.

SAFEKEEPING OF SECURITIES

The City of Signal Hill shall have a safekeeping financial institution as an independent third party custodian of securities. Collateral should always be at safekeeping. The City shall not purchase from or sell securities to the financial institution responsible for safekeeping of the City's securities. Securities at safekeeping shall be registered and held in the City's name.

FIVE YEAR LIMITATION ON INVESTMENT FUNDS OF THE CITY

Effective January 1, 1989, the Government Code, Section 53601 states:

No investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement authorized by this section, which at the time of the investment has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or as a part of an investment program approved by the legislative body no less than three months prior to the investment.

The City of Signal Hill administers funds according to cash flow requirements. As a result, there is a core of funds that are not necessary for the daily operational needs of the City for paying expenses. From time to time conditions of the fixed income markets present opportunities for high interest rates on high grade securities with a low risk exposure. It is in the best interests of the City of Signal Hill to practice a fully diversified investment plan that will ensure safety, liquidity, and the increase of acceptable yield from these situations.

It should be noted that at no time will more than 50% of the City of Signal Hill's funds be invested longer than two years. Purchases greater than five years are not allowed. The security must be a U.S. Treasury Note or Bond, a Federal National Mortgage Association (FNMA) debenture, or a Federal Home Loan Bank (FHLB) debenture, or a Medium Term Corporate Note.

INVESTMENT AUTHORITY

Authority to Make Investments

The City's Charter delegated all the Treasurer's duties to the Director of Finance. As such, the Director of Finance is authorized to make investments on behalf of the City of Signal Hill. Such investments shall only be limited to the instruments authorized under California Government Code Sections 53601 and 53635 and further described in Appendix "A".

TRANSFER OF INVESTMENT FUNDS

The transferring of investment funds will be carried out exclusively by use of telephonic or electronic wire transfers. Each entity with which the City does business shall receive, in writing from the Director of Finance, a listing which limits transfers of funds to preauthorized bank accounts only. The listing will also contain the names of the City staff authorized to request such transfers and will be updated, in writing, for all changes of authorized staff and bank accounts as necessary.

Deposits

Money must be deposited in state or national banks, state or federal savings associations, or state or federal credit unions in the state. It may be in inactive deposits, active deposits or interest-bearing active deposits. The deposits cannot exceed the amount of the bank's or savings and loan's or credit union's paid up capital surplus.

The bank or savings and loan must secure the active and inactive deposits with eligible securities having a market value of 110% of the total amount of the deposits. State law also allows as an eligible security, first trust deeds having a value of 150% of the total amount of the deposits. A third class of collateral is letters of credit drawn on the Federal Home Loan Bank (FHLB).

The investment officer may at his discretion waive security for that portion of a deposit which is insured pursuant to federal law. Currently, the first \$250,000 of a deposit is federally insured. It is the City's policy to waive this collateral requirement for the first \$250,000 because it is possible to receive a higher rate.

From time to time certain institutions ask to reduce the existing certificate of deposit from \$250,000 to \$247,000. This is so the accrued interest on the deposit will also be insured. It is to the City's advantage to reduce the principal deposit to the lower level for full insurance coverage of principal and accrued interest if the financial institution requests the reduction and if there is no penalty assessed for the reduction. If funds are to be collateralized, the acceptable collateral is 110% of the deposit in government securities.

INVESTMENTS

The following is a list of investments authorized by the Government Code:

- U.S. Treasury issues
- Federal Agency issues
- Certificates of Deposit
- Bankers Acceptances
- Commercial Paper
- Medium Term Corporate Notes
- Negotiable Certificates of Deposit
- Municipal and State obligations
- Mutual Funds
- Repurchase Agreements
- Reverse Repurchase Agreements
- Supranationals
- Local Agency Investment Fund (LAIF)
- County Pooled Funds
- Joint Powers Authority Local Government Investment Pools
- Passbook Savings/Money Market
- Financial Futures/Options

A description of these investments is listed in Appendix A.

The following types of investments can be used by the City of Signal Hill:

- U.S. Treasury issues
- Federal Agency issues
- Bankers Acceptances
- Certificates of Deposit
- Negotiable Certificates of Deposit
- Local Agency Investment Fund (LAIF)
- Passbook Savings Account
- Money Market Account

County Pooled Funds
Joint Powers Authority Local Government Investment Pools
Repurchase Agreements
Commercial Paper
Medium Term Corporate Notes
Municipal and State obligations
Mutual Funds
Supranationals

BOND PROCEEDS

Bond proceeds may be invested pursuant to the Bond Indenture Agreement which is approved at the time such bonds are issued.

The following types of investments cannot be used by the City of Signal Hill:

Financial Futures and Financial Options
Reverse Repurchase Agreements
Purchase of Securities on Margin
Guaranteed Small Business Administration (SBA) notes

REPORTING

In accordance with California Government Code Section 53646 (b)(d), (1) The Finance Director may render a quarterly report to the City Manager and City Council. The quarterly report shall be so submitted within 30 days following the end of the quarter covered by the report. Except as provided in subdivisions (e) and (f), this report shall include the type of investment, issuer, date of maturity, par and dollar amount invested on all securities, investments and moneys held by the local agency, and shall additionally include a description of any of the local agency's funds, investments, or programs, that are under the management of contracted parties, including lending programs. With respect to all securities held by the local agency, and under management of any outside party that is not also a local agency or the State of California Local Agency Investment Fund, the report shall also include a current market value as of the date of the report, and shall include the source of this same evaluation. (2) The quarterly report shall state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance. (3) The quarterly report shall include a statement denoting the ability of the local agency to meet its pool's expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available. (4) In the quarterly report, a subsidiary ledger of investments may be used in accordance with accepted accounting practices. (c) Pursuant to subdivision (b), the Finance Director shall report whatever additional information or data may be required by the legislative body of the local agency. (d) The City Council may elect to require the report.

POLICY REVIEW

Annual Statement of Investment Policy

In accordance with California Government Code Section 53646 (a), the Finance Director of the local agency may annually render to the City Manager and City Council a statement of investment policy, which the legislative body of the local agency shall consider at a public meeting. Any change in the policy shall also be considered by the City Council at a public meeting.

Periodic Review

To ensure a statement that is consistent with any new relevant legislation and financial trends, the Director of Finance or City Treasurer shall periodically report to the City Council and City Manager proposed changes and amendments to this document for review and approval.

APPENDIX A

DEPOSITORY SERVICES

Active deposits are demand or checking accounts with receive revenues and pay disbursements.

Interest-bearing active deposits are money market accounts at a financial institution (i.e., bank, savings and loan, credit union). These accounts are demand accounts (i.e., checking accounts) with restricted transaction activity.

Inactive deposits are certificates of deposit issued in any amount for periods of time as short as fourteen days and as long as several years. Interest must be calculated on a 360 day basis, actual number of days. The criteria for investments in Certificates of Deposit are described in Appendix B.

Passbook savings account is similar to an inactive deposit except not for a fixed term. The interest rate is much lower than Certificates of Deposit, but the savings account allows for flexibility. Funds can be deposited and withdrawn according to daily operational needs.

INVESTMENT SECURITIES

U.S. TREASURY ISSUES are direct obligation of the United States Government. These issues are called bills, notes, and bonds. The maturity range of new issues is from 13 weeks (T-Bills) to 30 years (T-Bonds). These are highly liquid and are considered the safest investment security.

FEDERAL AGENCY ISSUES are issued by direct U.S. Government agencies or quasi-government agencies. These issues are guaranteed directly or indirectly by the United States Government. Examples of these securities are Federal Home Loan Bank (FHLB) notes, Federal National Mortgage Association (FNMA) notes, Federal Farm Credit Bank (FFCB) notes, Federal Intermediate Credit Bank (FIC) debentures, Small Business Administration (SBA) notes, Government National Mortgage Association (GNMA) notes, and Student Loan Association (SALLMAE) notes.

CERTIFICATE OF DEPOSIT are investments for inactive funds issued by banks, savings and loans, and credit unions. Investments of \$250,000 are insured respectively by Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Share Insurance Fund (NCUSIF). Certificates of Deposit can be issued from 14 days to several years in maturity allowing the City investment of funds to be matched to cash flow needs. For deposits exceeding \$250,000, the financial institution is required to collateralize the investment with 110% government securities. The City does not accept 150% collateral (First Trust Deeds) or with 105% Letters of Credit (L.C.).

NEGOTIABLE CERTIFICATES OF DEPOSIT are large-denomination CDs issued in \$1 million increments. These securities have average trades in the secondary market of \$5 million to \$10 million. They are issued at face value and typically pay interest at maturity, if maturing in less than 12 months. CDs which mature beyond this range pay interest semi-annually. Negotiable CDs are issued by U.S. banks (domestic CDs), U.S. branches of foreign banks (Yankee CDs) and thrifts. There is an active secondary market for negotiable domestic and Yankee CDs. However, the negotiable thrift CD secondary market is limited. Yields on CDs exceed those on U.S. treasuries and agencies of similar maturities. This higher yield compensates the investor for accepting the risk of reduced liquidity and the risk that the issuing bank might fail. State law does not require the collateralization of negotiable CDs.

BANKERS ACCEPTANCES are short term credit arrangements to enable businesses to obtain funds to finance commercial transactions. They are time drafts drawn on a bank by an exporter or importer to obtain funds to pay for specific merchandise. By its acceptance, the bank becomes primarily liable for the payment of the draft at maturity. An acceptance is a high grade negotiable instrument. Bankers acceptances cannot exceed a maturity of 180 days. The interest is calculated on a 360 day discount basis similar to Treasury Bills. Local Agencies cannot invest more than forty percent of their surplus money in bankers acceptances.

COMMERCIAL PAPER is a short term unsecured promissory note issued by a corporation to raise working capital. These negotiable instruments may be purchased at a discount to par value or interest bearing. Commercial paper is issued by corporation such as General Motors Acceptance Corporation (GMAC), Shearson-American Express, Bank of America, Wells Fargo Bank, etc. Commercial paper cannot exceed a maturity of 270 days.

Local agencies are permitted by state law to invest in commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by Moody's Investor's Service, Inc. or Standard and Poor's Corporation. Purchases of eligible commercial paper may not exceed 270 days maturity nor exceed fifteen percent of the local agency's surplus funds. An additional ten percent (for a total of 25%) can be invested in Commercial Paper provided the average maturity of invested funds in commercial paper does not exceed 30 days. The City may not purchase more than 10% of the outstanding commercial paper and the medium-term notes of any single issuer.

MEDIUM TERM CORPORATE NOTES are unsecured promissory notes issued by a corporation organized and operating in the United States. These are negotiated instruments and are traded in the secondary market. Medium Term Corporate Notes (MTN) can be defined as extended maturity commercial paper. Corporations use these MTN's to raise capital. Examples of MTN issuers are General Electric, GMAC, Citibank, Wells Fargo Bank, etc.

Local agencies are restricted by the Government Code to investments in corporations rated in the top three note categories by a single nationally recognized rating service. Further restrictions are a maximum term of five years to maturity and total investments in Medium Term Corporate Notes may not exceed thirty percent of the local agency's surplus money.

MUNICIPAL BONDS including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the State or by a department, board, agency, or authority of the State.

Section 53601(c) of the State of California Government code permits local agencies to invest registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from are venue producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.

Investments also include bonds, notes, warrants, or other evidences of indebtedness of a local agency within California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

In addition, these securities must be:

- Maturities not exceeding five years from the date of trade settlement;
- Rated in at least the "A" category or its equivalent or better by a NRSRO;
- No more than five percent (5%) of the City's total portfolio shall be invested in anyone municipal issuer; and
- Cannot exceed thirty percent (30%) of the agency's investment portfolio.

REPURCHASE AGREEMENTS AND REVERSE REPURCHASE AGREEMENTS are short term investment transactions. Banks buy temporarily idle funds from a customer by selling him U.S. Government or other securities with a contractual agreement to repurchase the same securities on a future date. Repurchase agreements are typically for one to ten days in maturity. The customer receives interest from the bank. The interest rate reflects both the prevailing demand for Federal Funds and the maturity of the repo. Some banks will execute repurchase agreements for a minimum of \$250,000, but most banks have a minimum of \$500,000. A reverse repurchase agreement (Reverse Repo) is exactly what the name implies. The City of Signal Hill invests periodically in repurchase agreements, but as a matter of policy the City of Signal Hill does not invest in reverse repurchase agreements.

SUPRANATIONALS is an organization formed by a group of countries through an international treaty with specific objectives such as promoting economic development. Supranationals organizations also issue debt in the United States. The most commonly recognized debt is issued by the International Bank for Reconstruction and Development (IBRD or World Bank).

Section 53601 (q) of the State of California Government Code allows local agencies to invest in bonds issued by one of the three supranationals: World Bank, International Finance Corporation (IFC) and Inter-American Development Bank (IADB), which were established by international treaties, incorporated into U.S. federal law by Congressional Acts and headquartered in Washington D.C. Currently, these entities carry the highest credit ratings (AAA) based on their financial structure, policies, performance and capital support from shareholders.

These investments must meet the following criteria:

- Maturity of five years or less;
- Eligible for purchase and sale within the US;
- In a rating category of “AA” or its equivalent or better by a nationally recognized statistical rating organization (NRSRO); and
- No more than ten percent (10%) of the City’s total portfolio shall be invested in any one issuer of supranational obligations; and
- Cannot exceed 30 percent (30%) of the agency’s investment portfolio.

LOCAL AGENCY INVESTMENT FUND (LAIF) is a special fund in the State Treasury which local agencies may use to deposit funds for investment. There is no minimum investment period and the minimum transaction is \$5,000, in multiples of \$1,000 above that, with a maximum of \$75 million for any agency. It offers high liquidity because deposits can be converted to cash in twenty-four hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share determined by the amounts deposited and the length of time they are deposited. Interest is paid quarterly via a check or warrant.

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

COUNTY POOLED FUNDS is similar to the State of California Local Agency Investment Fund (LAIF). Los Angeles County has two pools, one of which is offered to municipal governments. The pool is administered by an outside contracted professional cash management firm, Discount Corporation of New York.

All interest is distributed to those agencies participating on a proportionate share determined by the amounts deposited and the length of time they are deposited. Interest is paid monthly via check, warrant, or direct deposit to the agency’s County Pooled Fund account. The County keeps an amount for reasonable administrative costs of the pool.

The advantage of the County Pool Investment Fund is the high level of liquidity and safety. There are no restrictions to number of transactions or dollar amounts of deposits. The funds deposited by a local agency in the County Pooled Funds cannot be attached by the County.

JOINT POWERS AUTHORITY LOCAL GOVERNMENT INVESTMENT POOLS are similar in nature to State of California Local Agency Investment Fund (LAIF) and/or County

Pools. They are referred to in the Government Code 53601, P, as "shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (r), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority". To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment advisor that meets all of the following criteria:

(1) The advisor is registered or exempt from registration with the Securities and Exchange Commission.

(2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (g), inclusive.

(3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

MUTUAL FUNDS are referred to in the Government Code, Section 53601, L, as "shares of beneficial interest issued by diversified management companies". The Mutual Fund must be restricted by its by-laws to the same investments as the local agency by the Government Code. These investments are Treasury issues, Federal Agency issues, State of California and City (within California) debt obligation, Bankers Acceptances, Commercial Paper, Certificates of Deposit, Negotiable Certificates of Deposit, Repurchase Agreements, Reverse Repurchase Agreements, Financial Futures and Financial Options and Medium Term Corporate Notes.

The quality rating restrictions in each investment category applicable to the local agency also apply to the Mutual Fund. Investments in Mutual Funds may not exceed 20% of the local agency's surplus money and no more than 50% may be invested in any one Mutual Fund.

A further restriction is that the purchase price of share of mutual funds shall not include any sales commission.

FINANCIAL FUTURES AND FINANCIAL OPTIONS are forward contracts for securities. The government code states that a local agency may incur future contracts/options for any of the investment securities enumerated in Section 53601, a-m. Due to the volatility of trading in financial futures, the City of Signal Hill does not invest in financial futures or financial options.

APPENDIX B

INVESTMENT CRITERIA FOR FINANCIAL INSTITUTIONS

The City of Signal Hill requires that each financial institution submit current financial statements which are evaluated by staff prior to the investment of funds. The following criteria are used:

The institution must have been in business at least three years.

The institution must submit audited financial statements.

The institution must have assets of at least \$50 million and a net worth to liability ratio of 3.5% to 1.

Investments of less than 180 days to maturity can use a net worth asset ratio of 3.0% to 1.

Investments in Credit Unions require Equity (net worth) to Asset Value of 5.0%. The loan balance to share draft ratio is compared to industry standards, but should not exceed 90%. The City may invest funds for a period up to 120 days in institutions with a Regular Reserve to Loan Balance ratio of at least 3.25%. For longer periods of time, the ratio must be at least 4.0%.

In addition, examination is made of the Reserve for Loan Losses category to evaluate the financial trend of the institution's asset base. When available, data is evaluated regarding the level of non-performing assets (i.e., loans no longer paying interest and/or principal in the amount called for in the original contract agreement). Comparison is made of institution ratio values to the industry averages.

Under deposits, if data is available, the City tracks the ratio of \$250,000 certificates of deposit (brokered money) to the total deposit base. A percent greater than 50% is an area of concern.

Whenever possible, the use of several years' financial data is evaluated to present a trend of activity in the institution.

It is also required that interest be paid on a monthly basis, current law only requires quarterly payments. No more than \$250,000 is placed in any savings and loan, small bank, or credit union. A small bank is defined as a banking institution with assets under \$500 million.

APPENDIX C INVESTMENT LIMITATIONS

PERMITTED INVESTMENT TYPE	MINIMUM CREDIT RATING	PORTFOLIO MAXIMUM	ISSUER LIMIT	MATURITY LIMIT
U.S. Treasury	N/A	None	None	5 years
Federal Agency	N/A	None	None ¹	5 years
Passbook Savings Account	N/A	None	10%	N/A
Money Market Account	N/A	None	10%	N/A
Bankers Acceptance	A1 or P1	40%	10%	180 days
Commercial Paper	A1 or P1	25%	10%	270 days
Medium Term Corporate Notes	AA	30%	10%	5 years
Municipal and State obligations	A	30%	5%	5 years
Time Certificate of Deposit	N/A	30%	10%	1 year
Negotiable CD	A or A2 ²	30%	10%	5 years
Supranationals	AA	30%	10%	5 years
Brokered Certificate of Deposit	N/A	30%	N/A	5 years
LAIF	N/A	None	None ³	N/A
County Pools	N/A	None	None	N/A
Joint Powers Authority Pools	N/A	None	None	N/A ⁶
Mutual Funds	Multiple ¹	20%	10% ⁴	N/A ⁵

¹ City/Agency may not purchase instruments issued by the SBA or GNMA.

² Negotiable Certificates of Deposit must be issued by institutions which have long term debt rated A or higher by Standard & Poors or A2 or higher by Moody's; and/or have short term debt rated at least A1 by Standard & Poors or P1 by Moody's.

³ The LAIF has a maximum investment limit per investing entity of \$65,000,000. The combined City/Agency limit is \$150,000,000.

⁴ Multiple - must receive the highest ranking by not less than two nationally recognized statistical rating agencies (i.e. Lipper Analytical; Morningstar) or retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million.

⁵ Multiple - Must receive the highest ranking by not less than two nationally recognized statistical rating agencies (i.e. Upper Analytical, Morningstar) or retain an investment advisor who is registered with the SEC (or exempt from registration) and has assets under management in excess of \$500 million.

⁶ Certain Joint Powers Authority Pools may have a maximum investment limit. The California Asset Management Program (CAMP) has an internal limit that a Shareholder can not be more than 10% of the total fund