

CITY OF SAN MARINO

CITY COUNCIL AGENDA

Ken Ude, Mayor

Susan Jakubowski, Vice Mayor

Steven W. Huang, DDS, Council Member

Gretchen Shepherd Romey, Council Member

Steve Talt, Council Member

Marcella Marlowe, Ph.D., City Manager



www.cityofsanmarino.org

(626) 300-0700 Phone

(626) 300-0709 Fax

City Hall Council Chamber

2200 Huntington Drive

San Marino, CA 91108

SPECIAL MEETING OF THE SAN MARINO CITY COUNCIL FRIDAY, FEBRUARY 26, 2021 AT 8:30 A.M. SAN MARINO CENTER 1800 HUNTINGTON DRIVE SAN MARINO, CA 91108

The City of San Marino appreciates your attendance. Citizens' interest provides the Council with valuable information regarding issues of the community.

Regular meetings are held on the 2nd Wednesday of every month at 6:00 p.m. Typically, adjourned meetings are held on the last Friday of every month at 8:30 a.m.

In compliance with the Americans with Disabilities Act, any person with a disability who requires a reasonable modification or accommodation in order to participate in a meeting should contact the City Clerk via email at cityclerk@cityofsanmarino.org or by phone at (626) 300-0705 prior to the meeting for assistance.

PURSUANT TO EXECUTIVE ORDER N-29-20

Members of the City Council may teleconference into the meeting without noticing each teleconference location from which a member will be participating in a public meeting.

CORONAVIRUS DISEASE (COVID-19) ADVISORY

As a precaution to protect both staff, our constituents, and elected officials, the City is asking members of the public to follow the State Health Department's guidance on large gatherings when deciding whether to attend this meeting. In that regard, all seating in the Council meeting will be spaced by at least six feet to minimize close contact. Close contact, such as shaking hands, is strongly discouraged. **Given the seriousness of the current COVID-19 surge, you are encouraged to watch or listen to the meeting from home, or provide input electronically.**

Members of the public may observe and offer comment at this meeting telephonically or otherwise electronically:

- 1) Public comment will be accepted by email to cityclerk@cityofsanmarino.org before or during the meeting, prior to the close of public comment on an item, to be read by the City Clerk during public comment. Lengthy public comment may be summarized in the interest of time.
- 2) Public comment will be accepted electronically via the zoom.us teleconference module.

How to participate in the meeting from home:

- 1) Via Computer for Video Streaming:
Website: <https://us02web.zoom.us/j/81834923204>
Meeting ID: 818 3492 3204
- 2) Via Phone for Audio Only:
Phone Number: (669) 900-9128
Meeting ID: 818 3492 3204
Submit Public Comments via email:
Email: cityclerk@cityofsanmarino.org

CALL TO ORDER

PLEDGE OF ALLEGIANCE

ROLL CALL: Council Member Huang, Council Member Shepherd Romey, Council Member Talt, Vice Mayor Jakubowski, and Mayor Ude

POSTING OF AGENDA

The special meeting agenda is posted 24 hours prior to each special meeting at the following locations: City Hall, 2200 Huntington Drive, the Crowell Public Library, 1890 Huntington Drive, and the Recreation Department, 1560 Pasqualito Drive. The special meeting agenda is also posted on the City's website: <http://www.cityofsanmarino.org>.

PUBLIC COMMENTS

The City welcomes public input. Members of the public may address the City Council by completing a public comment card and giving it to the City Clerk prior to the meeting. At this time, the public may address the City Council on items that are not on the agenda. Pursuant to state law, the City Council may not discuss or take action on issues not on the meeting agenda (Government Code Section 54954.2). The Mayor reserves the right to place limits on duration of comments. Staff may be asked to follow up on such items.

NEW BUSINESS

I. APPROVAL OF RESOLUTION NO. R-21-08, ADOPTING THE REVISED CITY OF SAN MARINO 2020 INVESTMENT POLICY

Recommendation: Staff recommends that the City Council adopt Resolution No. R-21-08, a Resolution of the City Council of the City of San Marino, California Adopting the Revised 2020 Investment Policy.

ADJOURNMENT

Dated: February 24, 2021
Posted: February 24, 2021

CHRISTINA BAKER
CITY CLERK



Staff Report

*Ken Ude, Mayor
Susan Jakubowski, Vice Mayor
Steven W. Huang, DDS, Council Member
Gretchen Shepherd Romey, Council Member
Steve Talt, Council Member*

TO: Mayor and City Council
FROM: Marcella Marlowe, Ph.D., City Manager
BY: Paul Chung, Finance Director
Annie Han, City Treasurer
DATE: February 26, 2021

SUBJECT: APPROVAL OF RESOLUTION NO. R-21-08 ADOPTING THE REVISED CITY OF SAN MARINO 2020 INVESTMENT POLICY

STRATEGIC PLAN CRITICAL SUCCESS FACTORS

- Efficient, Responsive, and Effective City Services
- Fiscally Responsible and Transparent City Government

BACKGROUND

The City’s Investment Policy (Policy) sets forth the goals, guidelines and practices used to manage the City’s available cash and investment portfolio. The Policy specifies the objectives of the investment program, as well as who is responsible for the program, the types of investments in which the City is allowed to invest its funds, and the reporting requirements.

The City’s Policy complies with the requirements of state law and is patterned after the model investment policies of the California Municipal Treasurer’s Association (CMTA) and the Association of Public Treasurers of the United States and Canada (APT). The format of the City’s Policy remained the same from 2004 until the middle of 2019.

As of December 31, 2020, the City’s cash and investments totaled \$33,703,494 and consisted of \$2,472,856 in cash, \$15,715,029 in a bank money market account, \$12,037,457 in the State of California Local Agency Investment Fund, \$3,476,000 in Certificates of Deposit and \$2,150 in Petty Cash on City premises.

After the agenda was posted on February 19, 2021, the City Attorney determined there was legal cause to amend the 2020 Investment Policy (“Policy”) to add an exception to the Policy for retirement funds or funds held in trusts for the payment of employee retiree health benefits so that a program such as the CERBT Trust can be appropriately implemented by the City.

DISCUSSION

Section 14.0 of the Policy notes that “any modifications made thereto must be approved by the City Council.” At this time, staff is recommending a revision to Section 2.0 Scope of the 2020 Investment Policy to allow funds held in trusts for the payment of employee retiree health benefits to be exempted from the Policy, as authorized by Government Code Sections 53609 and 53620. This revision to the Policy will provide the City the ability to open up an IRS Section 115 Trust and allow the fiduciary of the trust to invest funds on behalf of the City.

Government Code 53621 allows the City Council to delegate its investment responsibility for funds held in trust for the payment of employee retiree health benefits to a designated City official, including the selection of an investment strategy for implementation by a plan fiduciary, subject to the prudent investor standard set forth in Government Code Section 53622.

FISCAL IMPACT & PROCUREMENT REVIEW

This report possesses no fiscal impact and requires no procurement review.

LEGAL REVIEW

The City Attorney’s office has reviewed and approved as to form.

RECOMMENDATION

It is recommended that the City Council approve the revision of the City’s Investment Policy for 2020. If the City Council concurs with the recommendation, an appropriate motion would be:

“I move to adopt Resolution No. R-21-08, a Resolution of the City Council of the City of San Marino, California, Adopting the Revised 2020 Investment Policy.”

ATTACHMENTS

1. Resolution No. R-21-08
2. Exhibit A to the Resolution – 2020 Investment Policy (clean version)
3. 2020 Investment Policy (redline version)



RESOLUTION NO. R-21-08

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SAN MARINO, CALIFORNIA ADOPTING THE REVISED 2020 INVESTMENT POLICY

WHEREAS, the City of San Marino's Investment Policy requires that the Investment Policy be adopted by a Resolution of the City Council; and

WHEREAS, the City Treasurer and Finance Director have reviewed the current 2020 Investment Policy and recommend to add to Section 2.0 Scope an exception for funds held in trusts for the payment of employee retiree health benefits.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of San Marino, California as follows:

SECTION 1. That the attached City of San Marino Investment Policy dated February 2021 be adopted as the City's Revised 2020 Investment Policy.

SECTION 2. That the City Clerk shall certify to the adoption of this Resolution.

PASSED, APPROVED AND ADOPTED this 26th day of February, 2021.

KEN UDE, MAYOR

ATTEST:

CHRISTINA BAKER
CITY CLERK

STATE OF CALIFORNIA)
COUNTY OF LOS ANGELES) ss.
CITY OF SAN MARINO)

I, CHRISTINA BAKER, City Clerk of the City of San Marino, California, hereby certify that Resolution No. R-21-08 was adopted by the City Council of the City of San Marino at a Special Meeting held on the 26th day of February, 2021, and that the same was adopted by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

CHRISTINA BAKER
CITY CLERK

City of San Marino Investment Policy

1.0 Policy

It is the policy of the City of San Marino to invest public funds in a manner which will provide, in priority order, safety of principal, liquidity adequate to meet the daily cash flow demands of the City and return on investment to the highest extent possible, while conforming to all state and local statutes governing the investment of public funds. It is the City's intent at the time of purchase to hold to maturity all investments to ensure the return of all invested principal dollars.

2.0 Scope

This investment policy applies to all financial assets of the City with the exception of any future bond funds and funds held in trust for the payment of employee retiree health benefits, which will be invested according to the applicable bond and trust documents. San Marino's funds are accounted for in the City's annual audited Financial Statements and include:

- 2.1 General Fund
- 2.2 Special Revenue Funds
- 2.3 Debt Service Fund
- 2.4 Capital Projects Fund
- 2.5 Internal Service Fund
- 2.6 Agency Fund

3.0 Prudence

Investment officials are acting as trustee in a fiduciary capacity. The standard of prudence to be used by investment officials shall be the "prudent person" and "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the 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 appropriate action is taken to control adverse developments.

The prudent investor standard as set forth in Section 53600.3 of the Government Code is as follows. "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or 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."

4.0 Objectives

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

- 4.1 Safety

Safety of principal is the foremost objective of the investment program. Investments of the City of San

City of San Marino Investment Policy,

Marino shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk (which is the risk of loss of all or part of the investment due to the failure of the security issuer or backer) and interest rate risk (which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates). To attain this objective, the City will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions.

4.2 Liquidity

The City of San Marino's investment portfolio will remain sufficiently liquid to enable the City to meet operating requirements which might be reasonably anticipated.

4.3 Return on Investment

The City of San Marino's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

5.0 Delegation of Authority

Authority to manage the City's investment program is derived from the San Marino Municipal Code Section 02.06.04 and the California Government Code Sections 16429.1 et seq. (Article 11 of Chapter 2 of Part 2 of Division 4 of Title 2), 41001 et seq. (Chapter 3 of Part 3 of Division 3 of Title 4), 53600 et seq. (Article 1.0 of Chapter 4 of Part 1 of Division 2 of Title 5), and 53630 et seq. (Article 2.0 of Chapter 4 of Part 1 of Division 2 of Title 5) including without limitation Section 53646. The City Council hereby delegates to the Treasurer the authority to invest and reinvest City funds. The Treasurer, with the assistance of the City Manager and Finance Director, shall be responsible for assuring that all investments are made in conformance with this policy and shall establish a system of controls to regulate the activities of subordinate officials, and their procedures in the absence of the Treasurer.

5.1 Investment Procedures

The Treasurer shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The Procedures should include reference to: safekeeping, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer.

6.0 Ethics and Conflicts 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 which could impair their ability to make impartial investment decisions. The Treasurer and Finance Director are required to annually file applicable financial disclosures as required by the Fair Political Practices Commission. Furthermore, the Treasurer and Finance Director must refrain from undertaking personal investment transactions with the same individuals with whom business is conducted on behalf of the City.

7.0 Authorized Financial Dealers and Institutions

The Treasurer will maintain a list of financial institutions authorized to provide investment services. These may include “primary” dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). The Treasurer shall investigate dealers who wish to do business with the City to determine if they are adequately capitalized, are knowledgeable and experienced in public agency investing and in the investment products involved, have pending legal action against the firm or the individual broker and make markets in the securities appropriate to the City’s needs. All financial institutions and broker/dealers who desire to conduct investment transactions with the City must supply the Treasurer with the following: audited financial statements; proof of National Association of Securities Dealers certification; trading resolution; proof of State of California registration; complete broker/dealer questionnaire; and certification of having read the City’s investment policy and depository contracts.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Treasurer or Finance Director. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the City invests.

No public funds shall be deposited except in a qualified public depository as established by state laws.

Whenever possible, the Treasurer shall obtain a minimum of two quotations, and preferably three, prior to entering into an investment transaction. The Treasurer will transact at the price that is most advantageous to the City and meets investment requirements.

8.0 Authorized & Suitable Investments

The City of San Marino is empowered by statute, and further limited herein to invest in the following types of securities:

- 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 [Government Code Section 53601(b)]. There shall be no maximum allowable investment in U.S. Treasuries.
- 8.2 Securities issued and backed as to payment by one of the following U.S. Government-Sponsored Enterprises (GSE’s): the Federal Farm Credit System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC) [Government Code Section 53601(f)]. No more than 20% of the portfolio may be invested in these GSE securities.
- 8.3 Negotiable Certificates of Deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. [Government Code Section 53601(i)]. Purchases of negotiable certificates of deposit shall not exceed 30 percent of the City’s portfolio.
- 8.4 Certificates of Deposit placed through a placement service in compliance with California Government Code Sections 53601.8 and 53635.8. The statute limits total portfolio investments in CDs placed through a placement service to no more than 30% of the portfolio.

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8.5 Non-Negotiable Certificates of Deposit purchased directly from financial institutions [Government Code Section 53630 et. seq.]. Non-negotiable CDs are allowable up to insured limits.

8.6 Local Government Investment Pools

Local Agency Investment Fund (LAIF)

The State of California Local Agency Investment Fund (LAIF) is an authorized investment pool for surplus funds [Government Code Section 16429.1]. The maximum amount of the City's portfolio permitted to be invested in LAIF is the maximum amount for any one depositor as determined by LAIF, which is currently \$75 million.

Other Local Government Investment Pools

Investment in County- and JPA-sponsored investment pools is authorized under Government Code Sections 53684 and 53601(p), respectively. 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:

- A description of eligible investment securities, and a written statement of investment policy and objectives
- A description of interest calculations and how it is distributed, and how gains and losses are treated
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed
- A schedule for receiving statements and portfolio listings
- A statement of how/if reserves and retained earnings are utilized by the pool/fund
- A fee schedule, including when and how it is assessed
- A statement of the eligibility of the pool/fund for bond proceeds and whether or not bond proceeds will be accepted

No more than 10% of the total portfolio shall be invested in local agency investment pools other than LAIF, and the City's investment in any pool shall comprise no more than 5% of the market value of the total assets of the investment pool, measured at month end.

8.7 Money Market Mutual Funds

Per Government Code Section 53601(l), investments of surplus funds in money market mutual funds are authorized if the money market funds are diversified management companies registered with the Securities and Exchange Commission under the Investment Company Act of 1940. Minimum criteria for money market funds, as set forth in Section 53601 of the Government Code are as follows:

“[T]he company shall have met either of the following criteria:

City of San Marino Investment Policy,

(A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations; or

(B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000)."

Total investment in money market mutual funds shall not exceed 20% of the City's total portfolio. Investment in any one money market fund shall not exceed 10% of the City's total portfolio.

9.0 Safekeeping and Custody

To protect against fraud or embezzlement or losses caused by collapse of an individual securities dealer, all securities owned by the City shall be held in safekeeping by a third party bank trust department which is located in California, acting as agent for the City under the terms of a custody agreement. All trades executed by a dealer will settle *delivery-vs-payment* through the City's safe keeping agent. Securities held in custody for the City shall be evidenced by safekeeping receipts and independently audited on an annual basis to verify investment holdings.

10.0 Maximum Maturities

To the extent possible the City will attempt to match its investments with anticipated cash flow requirements. The City will not purchase investments with maturities exceeding five years.

11.0 Internal Control

The Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

12.0 Performance Standards

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

12.1 Market Yield

The City of San Marino's investment strategy is passive. Given this strategy, the basis used by the Treasurer to determine whether market yields are being achieved shall be to identify a comparable benchmark to the weighted average maturity or duration of the City's portfolio. Benchmarks may change over time based on changes in market conditions or cash flow requirements.

13.0 Reporting

The Treasurer shall review and render monthly reports to the City Council of all cash and investments held by the City.

City of San Marino Investment Policy,

The report shall include the following information for all cash accounts and bank deposits:

- Balance at the end of the month
- Interest rate (for all interest-bearing active deposits)

The report shall include the following information for all investments:

- A listing of individual securities held at the end of the month, by security type;
- Issuer, date of maturity, date of purchase, par and the dollar amount invested ;
- Coupon, discount or earnings rate; and
- Current market value as of the date of the report and the source of this same valuation; and
- The weighted average maturity and weighted average yield of all investments combined.

The above information may be submitted in the form of copies of statements received by the custodial institution. For investments with LAIF, the most recent statement or statements received from the State Treasurer may be included in the monthly report in lieu of the information noted above.

The report shall include a listing of all investment transactions for the month [Government Code Section 53607], and must also include a statement of compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance, as well as a statement denoting the ability of the local agency to meet its expenditure requirements for the next six months, or an explanation as to why sufficient money shall or may not be available [Government Code Section 53646].

Reports shall be rendered to the City Council and City Manager within 30 days following the end of the month of the period covered by the report.

14.0 Investment Policy Adoption

The City of San Marino's investment policy shall be adopted by a resolution of the City Council and shall be reviewed annually by the City Council. Any modifications made thereto must be approved by the City Council.

15.0 Glossary of Terms

Accrued Interest – Interest earned but not yet received.

Agencies – Federal agency securities and/or Government-sponsored enterprises.

Amortization – An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.

Basis Point – One basis point is one hundredth of one percent (.01).

Benchmark – A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Bond – A financial obligation for which the issuer promises to pay the bondholder a specified stream of

City of San Marino Investment Policy,

future cash flows, including periodic interest payments and a principal repayment.

Broker – A broker brings buyers and sellers together for a commission.

Book Value – The value at which an investment is shown on the holder's balance sheet. For Debt securities, book value is acquisition cost less amortization of premium or accretion of discount.

Coupon – The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

Custody – A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

Delivery vs. Payment – Delivery of securities with a simultaneous exchange of money for the securities.

Discount – The difference between the cost of a security and its value at maturity when quoted at lower than face value.

Diversification – Dividing investment funds among a variety of securities offering independent returns and risk profiles.

Duration – The weighted average maturity of a bond's cash flow stream, where the present value of the cash flows serve as the weights; the future point in time at which on average, an investor has received exactly half of the original investment, in present value terms; a bond's zero-coupon equivalent. The fulcrum of a bond's present value cash flow time line.

Federal Reserve System – The central bank of the United States which consists of a seven member Board of Governors, 12 regional banks and several thousand member commercial banks.

Interest Rate – The annual yield earned on an investment, expressed as a percentage.

Liquidity – Refers to the ability to rapidly convert an investment into cash without substantial loss of 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.

New Issue – Term used when a security is originally brought to market by its issuer.

Primary Dealer – A brokerage firm designated as a primary government dealer by the Federal Reserve Bank. These firms submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.

Prudent Person Rule – When investing, reinvesting, purchasing, acquiring, exchanging, selling, or 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

City of San Marino Investment Policy,

needs of the agency.

Rate of Return – The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Safekeeping – A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank’s vaults for protection.

Secondary Market – A market made for the purchase and sale of outstanding issues following their original offering as a “new issue”.

Yield – The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

Yield to Maturity – The rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

City of San Marino Investment Policy

1.0 Policy

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2.0 Scope

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8.0 Authorized & Suitable Investments

The City of San Marino is empowered by statute, and further limited herein to invest in the following types of securities:

- 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 [Government Code Section 53601(b)]. There shall be no maximum allowable investment in U.S. Treasuries.
- 8.2 Securities issued and backed as to payment by one of the following U.S. Government-Sponsored Enterprises (GSE’s): the Federal Farm Credit System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal National Mortgage Association (FNMA), and the Federal

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Home Loan Mortgage Corporation (FHLMC) [Government Code Section 53601(f)]. No more than 20% of the portfolio may be invested in these GSE securities.

- 8.3 Negotiable Certificates of Deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. [Government Code Section 53601(i)]. Purchases of negotiable certificates of deposit shall not exceed 30 percent of the City's portfolio.
- 8.4 Certificates of Deposit placed through a placement service in compliance with California Government Code Sections 53601.8 and 53635.8. The statute limits total portfolio investments in CDs placed through a placement service to no more than 30% of the portfolio.
- 8.5 Non-Negotiable Certificates of Deposit purchased directly from financial institutions [Government Code Section 53630 et. seq.]. Non-negotiable CDs are allowable up to insured limits.
- 8.6 Local Government Investment Pools

Local Agency Investment Fund (LAIF)

The State of California Local Agency Investment Fund (LAIF) is an authorized investment pool for surplus funds [Government Code Section 16429.1]. The maximum amount of the City's portfolio permitted to be invested in LAIF is the maximum amount for any one depositor as determined by LAIF, which is currently \$75 million.

Other Local Government Investment Pools

Investment in County- and JPA-sponsored investment pools is authorized under Government Code Sections 53684 and 53601(p), respectively. 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:

- A description of eligible investment securities, and a written statement of investment policy and objectives
- A description of interest calculations and how it is distributed, and how gains and losses are treated
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed
- A schedule for receiving statements and portfolio listings
- A statement of how/if reserves and retained earnings are utilized by the pool/fund
- A fee schedule, including when and how it is assessed

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- A statement of the eligibility of the pool/fund for bond proceeds and whether or not bond proceeds will be accepted

No more than 10% of the total portfolio shall be invested in local agency investment pools other than LAIF, and the City's investment in any pool shall comprise no more than 5% of the market value of the total assets of the investment pool, measured at month end.

8.7 Money Market Mutual Funds

Per Government Code Section 53601(I), investments of surplus funds in money market mutual funds are authorized if the money market funds are diversified management companies registered with the Securities and Exchange Commission under the Investment Company Act of 1940. Minimum criteria for money market funds, as set forth in Section 53601 of the Government Code are as follows:

“[T]he company shall have met either of the following criteria:

(A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations; or

(B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years’ experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).”

Total investment in money market mutual funds shall not exceed 20% of the City's total portfolio. Investment in any one money market fund shall not exceed 10% of the City’s total portfolio.

9.0 Safekeeping and Custody

To protect against fraud or embezzlement or losses caused by collapse of an individual securities dealer, all securities owned by the City shall be held in safekeeping by a third party bank trust department which is located in California, acting as agent for the City under the terms of a custody agreement. All trades executed by a dealer will settle *delivery-vs-payment* through the City’s safe keeping agent. Securities held in custody for the City shall be evidenced by safekeeping receipts and independently audited on an annual basis to verify investment holdings.

10.0 Maximum Maturities

To the extent possible the City will attempt to match its investments with anticipated cash flow requirements. The City will not purchase investments with maturities exceeding five years.

11.0 Internal Control

The Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

12.0 Performance Standards

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

12.1 Market Yield

The City of San Marino's investment strategy is passive. Given this strategy, the basis used by the Treasurer to determine whether market yields are being achieved shall be to identify a comparable benchmark to the weighted average maturity or duration of the City's portfolio. Benchmarks may change over time based on changes in market conditions or cash flow requirements.

13.0 Reporting

The Treasurer shall review and render monthly reports to the City Council of all cash and investments held by the City.

The report shall include the following information for all cash accounts and bank deposits:

- Balance at the end of the month
- Interest rate (for all interest-bearing active deposits)

The report shall include the following information for all investments:

- A listing of individual securities held at the end of the month, by security type;
- Issuer, date of maturity, date of purchase, par and the dollar amount invested ;
- Coupon, discount or earnings rate; and
- Current market value as of the date of the report and the source of this same valuation; and
- The weighted average maturity and weighted average yield of all investments combined.

The above information may be submitted in the form of copies of statements received by the custodial institution. For investments with LAIF, the most recent statement or statements received from the State Treasurer may be included in the monthly report in lieu of the information noted above.

The report shall include a listing of all investment transactions for the month [Government Code Section 53607], and must also include a statement of compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance, as well as a statement denoting the ability of the local agency to meet its expenditure requirements for the next six months, or an explanation as to why sufficient money shall or may not be available [Government Code Section 53646].

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Reports shall be rendered to the City Council and City Manager within 30 days following the end of the month of the period covered by the report.

14.0 Investment Policy Adoption

The City of San Marino's investment policy shall be adopted by a resolution of the City Council and shall be reviewed annually by the City Council. Any modifications made thereto must be approved by the City Council.

15.0 Glossary of Terms

Accrued Interest – Interest earned but not yet received.

Agenies – Federal agency securities and/or Government-sponsored enterprises.

Amortization – An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.

Basis Point – One basis point is one hundredth of one percent (.01).

Benchmark – A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Bond – A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Broker – A broker brings buyers and sellers together for a commission.

Book Value – The value at which an investment is shown on the holder's balance sheet. For Debt securities, book value is acquisition cost less amortization of premium or accretion of discount.

Coupon – The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

Custody – A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

Delivery vs. Payment – Delivery of securities with a simultaneous exchange of money for the securities.

Discount – The difference between the cost of a security and its value at maturity when quoted at lower than face value.

Diversification – Dividing investment funds among a variety of securities offering independent returns and

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risk profiles.

Duration – The weighted average maturity of a bond’s cash flow stream, where the present value of the cash flows serve as the weights; the future point in time at which on average, an investor has received exactly half of the original investment, in present value terms; a bond’s zero-coupon equivalent. The fulcrum of a bond’s present value cash flow time line.

Federal Reserve System – The central bank of the United States which consists of a seven member Board of Governors, 12 regional banks and several thousand member commercial banks.

Interest Rate – The annual yield earned on an investment, expressed as a percentage.

Liquidity – Refers to the ability to rapidly convert an investment into cash without substantial loss of 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.

New Issue – Term used when a security is originally brought to market by its issuer.

Primary Dealer – A brokerage firm designated as a primary government dealer by the Federal Reserve Bank. These firms submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.

Prudent Person Rule – When investing, reinvesting, purchasing, acquiring, exchanging, selling, or 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.

Rate of Return – The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Safekeeping – A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank’s vaults for protection.

Secondary Market – A market made for the purchase and sale of outstanding issues following their original offering as a “new issue”.

Yield – The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

Yield to Maturity – The rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond,

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expressed as a percentage.

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