

RESOLUTION NO. 2019 - 45

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF WILDOMAR, CALIFORNIA,
ADOPTING STATEMENT OF INVESTMENT POLICY**

WHEREAS, the City Council of the City of Wildomar ("City") has established a Statement of Investment Policy to set forth and identify policies of the City Council which may not otherwise be established in ordinances of the City, or which are restated to further amplify existing City policy; and

WHEREAS, all policies included in the Statement of Investment Policy are adopted by resolution; and

WHEREAS, the City Council wishes to adopt its Statement of Investment Policy; and

WHEREAS, such policy will provide for the safety of City investments, and secondarily ensure liquidity and yield, and

WHEREAS, such policy will enforce strict investment guidelines with regards to investments, external portfolio managers, and capital wherewithal of brokering firms.

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF WILDOMAR, CALIFORNIA,
DOES HEREBY RESOLVE AS FOLLOWS:**

SECTION 1. That the City Council approves the adoption of the "Statement of Investment Policy" as attached hereto as Exhibit "A",

SECTION 2. This policy will take effect immediately upon adoption.

PASSED, APPROVED AND ADOPTED this 26th day of June 2019.



Marsha Swanson
Mayor

APPROVED AS TO FORM:

ATTEST:



Thomas D. Jex
City Attorney



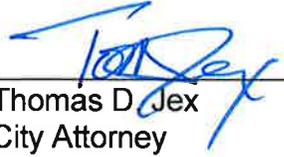
Janet Morales
Acting City Clerk



PASSED, APPROVED AND ADOPTED this 26th day of June 2019.


Marsha Swanson
Mayor

APPROVED AS TO FORM:


Thomas D. Jex
City Attorney

ATTEST:


Janet Morales
Acting City Clerk



STATE OF CALIFORNIA)
COUNTY OF RIVERSIDE)
CITY OF WILDOMAR)

I, Janet Morales, Acting City Clerk of the City of Wildomar, California, do hereby certify that the foregoing Resolution No. 2019 – 45 was duly adopted at a special meeting held on June 26, 2019, by the City Council of the City of Wildomar, California, by the following vote:

AYES: Benoit, Moore, Morabito, Mayor Pro Tem Nigg, Mayor Swanson

NOES: None

ABSTAIN: None

ABSENT: None



Janet Morales
Acting City Clerk
City of Wildomar



CITY OF WILDOMAR

STATEMENT OF INVESTMENT POLICY

I. INTRODUCTION

The City Council of the City of Wildomar (the “City”) and its subsidiary district, the Wildomar Cemetery District, recognizes its responsibility to prudently direct the investment of the City’s funds on behalf of the City’s existing and future residents. The City Council further recognizes that the City’s investment assets are essential to the City’s financial strength, the effective implementation of long range financial plans, and ultimately its ability to respond to the needs of the community.

The investment policies and practices of the City of Wildomar take into consideration that California statutes authorize the City of Wildomar to finance acquisition or construction of various projects and capital assets through the issuance and sale of municipal securities, including but not limited to general obligation bonds and revenue bonds. Depending on the type and the authority for the issuance and sale of the bond, the City’s general fund and/or certain sources of city revenue may be pledged as security for the bonds. The bonding and the resulting security interest in city funds and revenue may supercede all or portions of this Policy.

This Statement sets forth policies which shall govern the investment of the City’s funds. It will be used by the City’s Finance Director and other City officials and staff, as well as all other third-party providers of investment or investment-related services. Its purpose is to direct the prudent investment and protection of the City’s funds and investment portfolio.

II. POLICY

It is the policy of the City to invest public funds in a manner which will provide the highest investment return with maximum security while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of public funds.

III. SCOPE

This Investment Policy applies to all financial assets of the City of Wildomar. The following funds are covered by this Investment Policy and are accounted for in the City’s Comprehensive Annual Financial Report:

- A) General Fund
- B) Special Revenue Funds
- C) Debt Service Funds

- D) Capital Project Funds
- E) Enterprise Funds
- F) Internal Services Funds
- G) Trust and Agency Funds
- H) Any new funds created by the City Council

This Investment Policy does not apply to proceeds of bond issues and retirement funds held in trusts.

IV. PRUDENCE

Investments shall be made in the context of the "Prudent Investor" standard pursuant to Government Code Section 53600.3 which states in relevant part that:

"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, 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."

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.

All investments purchased shall have daily liquidity or a final stated maturity date, upon which the full principal value of the security will be received. Although the investment will mature at full principal value, it is recognized that the market will vary throughout the life of the security. In a diversified portfolio it must be further recognized that occasional measured losses are inevitable due to economic, bond market, or individual security credit analysis. These occasional losses must be evaluated and considered within the context of the overall return.

The "Prudent Investor" standard 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.

V. OBJECTIVE

The City's cash management system is designed to accurately monitor and forecast expenditures and revenues, which enables the City to invest its funds to the fullest extent possible. The objective of the investment portfolio is to meet the short- and long-term

cash flow demands of the City. To achieve this objective, the portfolio will be structured to provide safety of principal and liquidity, while attempting to receive the highest yield obtainable.

A. Safety of Principal

Safety of principal is the foremost objective of the City of Wildomar. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker-dealer default or erosion of market value. To attain this objective, the City will diversify its investments by investing funds among a variety of securities and approved financial institutions. The City shall seek to preserve principal by mitigating the two types of risk in order of importance: credit risk and market risk.

1. **Credit Risk** Credit risk, defined as the risk of loss due to failure of an issuer of a security, shall be mitigated by purchasing U.S. Treasuries or high grade securities. All investments beyond Treasury securities will be diversified so that the failure of any one issuer would not unduly harm the City's cash flow. Credit risk shall also be mitigated by prequalifying financial institutions, broker/dealers, intermediaries and advisors with which the City does business.

2. **Market or Interest Rate Risk** Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated by structuring the Funds so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and by investing operating funds primarily in shorter-term securities. The cash flow is updated on a daily basis and will be considered prior to the investment of securities, which will reduce the necessity to sell investments for liquidity purposes. Long-term securities shall not be purchased for the sole purpose of short-term speculation. Securities shall not be sold prior to maturity with the following exceptions, 1) a security whose credit declines or is expected to decline may be sold IF there is a reasonable expectation that the prompt payment of principal and interest becomes unlikely. A temporary or modest decline in a securities; credit rating should not in and of itself trigger a liquidation , 2) a security swap would improve the quality, yield, or target duration in the portfolio, or 3) liquidity needs of the portfolio require that the security be sold. The weighted average maturity of the funds will be limited to three years or less. Purchases of investments will be restricted to securities with a final stated maturity not to exceed five (5) years.

B. Liquidity

This refers to the ability to "cash in" at any moment in time with a minimal chance of losing some portion of principal or accrued interest. Liquidity is an important quality especially when the need for unexpected funds occurs. The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

C. Return On Investments

The City'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. A benchmark does not imply that the Assistant City Manager will add additional risk to the portfolio in order to attain or exceed the benchmark.

VI. DELEGATION OF AUTHORITY

The City of Wildomar Resolution No.08-68 delegates investment authority to the Finance Director. It further authorizes the Finance Director to invest or deposit the City's funds in accordance with California Government Code Sections 53600 and 53630 et seq. and all related State and Federal laws.

In the Finance Director's absence, and subject to City Council approval, the Finance Director may assign investment responsibilities to the City Manager. The Finance Director will provide prior written notification to the City Manager and the City Council regarding the assignment of responsibilities. In the event that the Finance Director is unable to assign responsibility, the City Manager may select a designee. In addition, at the discretion of the Finance Director, cash monitoring and investment responsibilities can be assigned to a designated assistant and a surety bond will be obtained by the City for said assistant.

The responsibility for establishing, monitoring and maintaining a strong system of investment controls and directing an independent audit of the investment function is delegated to the City Manager. The City Manager's designee(s) may assist in carrying out these functions.

The City Council's primary responsibilities over the investment function include establishing investment policies, annually reviewing such policies, reviewing monthly investment reports issued by the Finance Director and authorizing any deviations from the City's Investment Policy.

As permitted by Government Code 53601, the Finance Director may delegate day-to-day investment decision making and execution authority to an investment advisor. Eligible investment advisors must be registered with the Securities and Exchange Commission (SEC) under the Investment Advisors Act of 1940. The advisor will follow the Policy and such other written instructions as are provided.

VII. ETHICS AND CONFLICTS OF INTEREST

The Finance Director and other 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 Finance Director and investment employees shall disclose any material interests in financial institutions with which they conduct business within their jurisdiction. They shall further disclose any large personal financial/investment positions that could be related to the performance of the investment portfolio and shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City. The Finance Director and investment employees are required to file annual disclosure statements as required by the Fair Political Practices Commission (FPPC). During the course of the year, if there is an event subject to disclosure that could impair the ability of the Finance Director or investment employees to make impartial decisions, the City Council will be notified in writing within 10 days of the event.

VIII. QUALIFIED DEALERS

The City shall transact investments only with banks, savings and loans, investment security dealers and the State of California Local Agency Investment Fund. The purchase by the City of any investment, other than those purchased directly from the issuer, shall be purchased directly from an institution licensed by the State as a broker/dealer, as defined in Section 25004 of the Corporations Code, who is a member of the National Association of Securities Dealers, or a member of a Federally regulated securities exchange, a National or State Chartered Bank, a Federal or Savings Association, or a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank. Exceptions to this rule will be made only after thorough research and documented confirmation of financial strength and reputation and after approval by the City Manager. Investment staff shall investigate dealers who wish to do business with the City in order to determine if they are adequately capitalized, market securities appropriate to the City's needs, and are recommended by managers of portfolios similar to the City's.

The City shall at least annually send a copy of the current investment policy to all dealers approved to do business with the City. Confirmation of receipt of this policy shall be considered as evidence that the dealer understands the City's investment policies, and intends to show the City only appropriate investments.

IX. AUTHORIZED AND SUITABLE INVESTMENTS

The investments set forth in this section are authorized investments pursuant to Section 53601 et seq. of the Government Code and are authorized investments for the City subject, however, to the prohibitions set forth in Section X of this Investment Policy.

A. Securities of the U.S. Government

U.S. Treasury Bills – issued by the U.S. Treasury and are available in maturities out to one year. They are non-interest bearing and sold on a discount basis. The face amount is paid at maturity.

U.S. Treasury Notes – issued by the U.S. Treasury with maturities from two to ten years. They are issued in coupon form and many issues are also available in registered form. Interest is payable at six month intervals until maturity.

U.S. Treasury Bonds – issued by the U.S. Treasury with maturities of ten years to thirty years. The City may purchase the interest and/or principal of a U.S. Treasury Bond. A principal only instrument is commonly called a “stripped” or “zero” coupon. Stripped coupons are sold at a discount basis. The face amount is paid at maturity.

B. Securities of U.S. Government Agencies

U.S. Agency Obligations. Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

C. Bonds

City Bonds – Bonds issued by the city, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the City or by a department, board, agency, or authority of the City that is rated in a rating category of “A” long term, or “A-1” short term, the equivalent or higher by a nationally recognized statistical rating organization (NRSRO).

California State Bonds – Registered state warrants or treasury notes or bonds of the State of California, 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 that is rated in a rating category of “A” long term, or “A-1” short term, the equivalent or higher by a NRSRO.

Other 49 States’ Bonds – Bonds, notes, warrants, or other evidences of indebtedness of any local agency within the State of California and any of the other

49 states, 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 that is rated in a rating category of “A” long term, or “A-1” short term, the equivalent or higher by a NRSRO.

D. Time Deposits and Certificates of Deposit

Time Deposits are placed with commercial banks and savings and loan agencies. A time deposit is a receipt for funds deposited in a financial institution for a specified period of time at a specified rate of interest. Deposits of \$250,000 (referred to as Jumbo C.D.’s) per institution are insured by the government and Certificates of Deposit can be supported by either 110% U.S. Government agency notes or 150% mortgages currently held by the bank or savings and loan. Purchases of negotiable certificates of deposit may not exceed 30 percent of the City’s surplus money to be invested. Generally the time is 3 months to 2 years. Denominations can be any agreed upon amount and interest is normally calculated using actual number of days on a 360-day year and paid monthly. An institution must maintain a net worth to asset ratio of at least 3% and a positive earnings record, must be in compliance with the Financial Institution Reform Act (FIRREA) capital ratio requirements for risk-based, tangible, and core capital, and the institution must make available a current Federal Deposit Insurance Corporation (FDIC) call report or a Federal Home Loan Bank (FHLB) report. A call report presents the financial condition of the institution to the agency with oversight responsibility of that institution.

E. Negotiable Certificates of Deposit

Negotiable Certificates of Deposit are a form of Certificate of Deposit which has been an important money market instrument since 1961 when commercial banks began issuing them and a secondary market developed to provide liquidity. They are supported only by the strength of the institution from which they are purchased. Negotiable Certificates of Deposit may not exceed 30% of the City’s surplus funds to be invested. Maturities range from 3 months to 2 years and are generally issued in blocks of \$1 million, \$5 million, \$10 million, etc. Interest is paid semi-annually computed on a 30/360 day basis. Must be rated in a rating category of “A” long-term or “A-1” short term, the equivalent or higher by a NRSRO.

F. Bankers Acceptance Notes

As a money market instrument, this note is an attractive short-term investment. When a bank “accepts” such a time draft, it becomes, in effect, a predated certified check payable to the bearer at some future, specified date. Purchases of bankers acceptances may not exceed 180 days maturity or 40 percent of the City’s surplus money that may be invested pursuant to this section. In addition, no more than 30 percent of the City’s surplus funds may be invested in the bankers’ acceptances of any one commercial bank pursuant to this section. Must be rated in the highest category by a NRSRO.

G. Commercial Paper

Commercial paper is the trade name applied to unsecured promissory notes issued by finance and industrial companies to raise funds on a short term basis. Commercial paper of “prime” quality of the highest ranking or of the highest letter and numerical rating as provided for by a nationally recognized statistical rating organization (NRSRO). Eligible paper is further limited to issuing corporations that are organized and operating within the United States and having total assets in excess of five hundred million dollars (\$500,000,000) and having an “A” or higher rating for the issuer’s debt, other than commercial paper, if any, as provided for by the NRSRO. Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10 percent of the outstanding paper of an issuing corporation. Purchases of commercial paper may not exceed 25 percent of the City’s surplus money that may be invested pursuant to this section.

H. Repurchase Agreement

Investments in repurchase agreements are allowable but must comply with current Government code and a Master Repurchase Agreement must be signed with the bank or dealer.

Closely associated with the functioning of the Federal funds market is the negotiation of repurchase agreements. Banks may buy temporarily idle funds from a customer by selling U.S. Government or other securities with the contractual agreement to repurchase the same security on a future date determined by the negotiation. For the use of funds, the customer receives an interest payment from the bank; the interest rate reflects both the prevailing demand for Federal funds and the maturity of the “repo”. Repurchase agreements are usually executed for \$100,000 or more. The City will require physical delivery of the securities backing the “repo” to its safekeeping agent. The issuing institution must transfer on an ongoing basis sufficient securities to compensate for changing market conditions and to insure that adequate collateral is maintained in the City’s safekeeping account. Repurchase agreements shall only be made with primary dealers of the Federal Reserve Bank of New York, the market value of securities that underlay the agreement must be valued at 102 percent or greater of the funds borrowed against those securities, and the value shall be adjusted no less than quarterly. Purchases of repurchase agreements may not exceed 20 percent of the City’s surplus money to be invested. Generally, maturities range from 1 to 92 days (may not exceed 92 days) with interest paid at maturity.

I. Mutual Funds

Money Market Mutual Funds are another authorized investment allowing the City to maintain liquidity, receive competitive money market rates and remain diversified in pooled investments.

Money Market Mutual Funds are referred to in the California Government Code Section 53601 as “shares of beneficial interests issued by diversified management companies.” The Money Market Mutual Fund must be restricted by its by-laws to the same investments allowed to the local agency. These investments are Treasury issues, Agency issues, Bankers Acceptances, Commercial Paper, Certificates of Deposit and Negotiable Certificates of Deposit. The quality rating and percentage restrictions in each investment category applicable to the local agency also applies to the Money Market Mutual Fund.

The purchase price of shares of the mutual fund shall not include any sales commission. Investments in mutual funds shall not exceed 20 percent of the City’s surplus money. However, no more than 10 percent of the City’s funds may be invested in shares of beneficial interest of any one mutual fund.

J. Local Agency Investment Fund

The Local Agency Investment Fund (LAIF) of the State of California offers high liquidity because deposits can be wired to the City checking account in twenty-four hours. Interest is compounded on a daily basis.

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 permitted by the State Treasurer. All interest is distributed to those agencies participating on a proportionate share determined by the amounts deposited and the length of time of the deposit. Interest is paid quarterly and deposited directly into the account on the 15th day of the month following the close of the quarter. The State keeps an amount for the reasonable costs of administration, not to exceed one-half of one percent of the gross earnings.

Interest rates are fairly high because of the pooling of the State surplus cash with the surplus cash deposited by local governments. This creates a multibillion-dollar money pool and allows diversified investments. In a high interest rate market, the City may produce higher yields than LAIF can, but in times of low interest rates, LAIF yields are generally higher.

K. Joint Powers Authority Investment Pools

Joint Powers Authority Investment Pools are organized pursuant to Section 6509.7 of the Government Code that invests in the securities and obligations under Sections 53601 of the California Government Code. To be eligible for City investments, the joint powers authority issuing the shares shall have retained an investment adviser that is registered or exempt from registration with the Securities and Exchange Commission, the adviser has not less than five years of experience investing in the securities and obligations authorized in under Section 53601 and the adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

X. PROHIBITED INVESTMENTS AND TRANSACTIONS

Investments not described herein, including, but not limited to range notes, reverse repurchase agreements, zero coupon bonds, inverse floaters, common stocks, futures, options, mortgage-derived, interest-only strips and derivatives are prohibited from use in the City's investment portfolio.

The City shall not engage in securities lending, short selling or other hedging strategies. The City shall not purchase or sell securities on margin.

XI. COLLATERALIZATION

Collateralization will be required on two types of investments: certificates of deposit and repurchase agreements. Deposits per institution are insured up to certain dollar amounts by the FDIC and Certificates of Deposit can be supported by either U.S. Government agency notes of mortgages currently held by the bank or savings and loan.

Collateral will always be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained. The right of collateral substitution is granted.

The City chooses to limit collateral to the following: Repurchase Agreements, Time Deposits and Certificates of Deposit.

XII. SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment basis. Securities will be held by a third party custodial designated by the Finance Director and evidenced by safekeeping receipts.

XIII. DIVERSIFICATION

The City operates its investment pool with many State and self-imposed constraints. It does not buy stocks and it does not speculate. Assets shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities.

The City will diversify its investments by security type, institution and maturity/call dates. With the exception of U.S. Treasury securities, federal agency securities and authorized pools, no more than 50% of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

XIV. MAXIMUM MATURITIES

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than 5 years from the date of purchase.

Reserve funds may be invested in securities exceeding five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

XV. INTERNAL CONTROL

The Finance Director shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with the City's Investment Policy and for establishing internal controls that are designed to prevent losses due to fraud, negligence, and third-party misrepresentation.

Internal controls deemed most important shall include (but not limited to): avoidance of collusion; separation of duties and administrative controls; separating transaction authority from accounting and record keeping; custodial safekeeping; clear delegation of authority; management approval and review of investment transactions; specific limitations regarding securities losses and remedial action; written confirmation of telephone transactions; documentation of investment transactions and strategies; and monitoring of results.

XVI. 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.

The City's investment strategy is passive. Passive investment portfolio management generally indicates that the Finance Director will purchase an instrument and hold it through to call or maturity, and then reinvest the monies. Although the City's investment strategy is passive, this will not restrict the Finance Director from evaluating when swaps are appropriate or if the sale of an instrument is prudent prior to final maturity. Given this strategy, the basis used by the Finance Director to determine whether market yields are being achieved shall be the Local Agency Investment Funds (LAIF).

XVII. REPORTING

The Finance Director shall provide the City Council monthly investment reports which provide a clear picture of the status of the current investment portfolio. The management report shall include the type of investments, the issuers, maturity dates, par values, and the current market values of each component of the portfolio, including funds managed for the City by third party safekeeping custodians. The report will also include the source

of the portfolio valuation. As specified in California Government Code Section 53646 (e), if all funds are placed in LAIF or FDIC-insured accounts, the foregoing report elements may be replaced by copies of the latest statements from such institutions. The report must also include a certification that the City will meet its expenditure obligations for the next six months as required by California Government Code Section 53646 (b)(3). The Finance Director shall maintain a complete and timely record of all investment transactions.

XVIII. INVESTMENT POLICY ADOPTION

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