



**CALIFORNIA MUNICIPAL TREASURERS ASSOCIATION
CERTIFIED INVESTMENT POLICY**



Certification Date:

August, 2012

Administrative Services Director
Treasurer Operations Division Manager:

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INVESTMENT POLICY

PURPOSE: The City Council of the City of Moreno Valley (City) and its related authorities and agencies recognizes its responsibility to properly direct the investments of funds under its care. It is the purpose of this policy to provide guidelines for the prudent investment of unexpended funds in a manner which allows for maximum security, while at the same time providing the best investment return to meet the daily cash flow demands of the City, and conform to all applicable statutes pertaining to the investment of public funds. In instances in which the Policy is more restrictive than Federal or State law, the Policy supersedes.

I. Scope

- A. Investments for the City and its related authorities and agencies will be made on a pooled basis including the City of Moreno Valley the City of Moreno Valley Housing Authority, the Moreno Valley Community Services District, the Moreno Valley Public Facilities Financing Corporation, the Moreno Valley Public Financing Authority, and the Moreno Valley Industrial Development Authority. These funds are accounted for in the City's Comprehensive Annual Financial Report (CAFR) and include:
1. General Fund
 2. Special Revenue Funds
 3. Debt Service Funds
 4. Capital Project Funds
 5. Internal Service Funds
 6. Agency Funds
 7. Enterprise Funds
- B. The City Council has the authority to allow investments that do not follow this policy as long as such investments are recommended by the City Manager and City Treasurer, and expressly authorized by the City Council.
- C. At the time this policy is adopted, the portfolio may hold investments which were made in the past and in accordance with previous policies and existing State law, but do not meet the provisions of this policy. These past investments are grandfathered as permissible investments. The City may choose to hold these investments until maturity; however, their maturity cannot be extended without the expressed authorization of the City Council.
- D. Funds excluded from this policy
1. **Bond Proceeds.** Proceeds of debt issuance shall be invested in accordance with the City's general investment philosophy as set forth in this policy. The overriding policy for the investment of bond proceeds will be dictated by the bond documents governing such funds as long as the documents are approved by the City Council or related governing board.
 2. **Deferred Compensation Plans.** Investments related to the City's deferred compensation plans are not subject to this policy since third-party administrators manage them and the individual plan participant's direct investment and mutual fund selection. Deferred compensation plans must be approved by the City Council.

II. Prudence

- A. Prudent Investor Standard: Management of the City's investments is governed by the Prudent Investor Standard as set forth in the California Government Code 53600.3:

“...all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter

Approved by: City Council
December 17, 1996

Revised 1/13/98; 1/12/99; 2/8/00; 1/3/01; 5/14/02; 11/22/05; 2/26/08; 2/24/09; 3/23/10; 5/24/11; 4/24/12

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are trustees and therefore fiduciaries subject to the prudent investor standard. 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. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.”

- B.** 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.

III. Objectives

- A.** The City’s investment philosophy sets the tone for its policies, practices, procedures and objectives that control the investment function. The investment of funds will be guided by the primary objectives of safety, liquidity and a reasonable market rate of return.
- 1. Safety** – Safety of principal is the foremost objective of the investment program. The City will undertake investments in a manner that ensures the preservation of capital in the portfolio taken as a whole.
 - 2. Liquidity** – The City will maintain sufficient cash and short-term investment instruments which, together with projected revenues, will provide sufficient liquidity so that the City will be able to meet all operating requirements which might be reasonably anticipated including an amount to cover reasonably estimated contingencies.
 - 3. Reasonable market rate of return (Yield)** – The City’s investment portfolio will be designed with the objective to attain 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.
- B.** The investment function will have the ongoing objectives of: assuring compliance with Federal, State and local laws governing the investment of public funds, maintaining reserves for long-term projects and contingencies, and establishing quality standards and limits related to the type of investments made and with which institutions investments are placed.

IV. Delegation of Authority

- A.** The City of Moreno Valley Municipal Code specifies that the City Council will appoint the City Treasurer. By resolution, the City Council has appointed the Financial & Administrative Services Director to serve as the City Treasurer. The Treasurer serves as the chief investment officer for the City and is authorized to invest or deposit the City’s funds in accordance with this policy, California Government Code Sections 53600 and 53630 et seq., and all other related Federal and State laws. The City Treasurer also serves as the Treasurer for the City of Moreno Valley Housing Authority, the Moreno Valley Public Financing Authority, the Moreno Valley Public Facilities Financing Corporation, the Moreno Valley Community Services District and other related City entities. In the absence of the City Treasurer, and unless otherwise delegated, the Treasury Operations Division Manager/Assistant City Treasurer will serve as the Acting Treasurer. The City Treasurer may appoint

Approved by: City Council
December 17, 1996

Revised 1/13/98; 1/12/99; 2/8/00; 1/3/01; 5/14/02; 11/22/05; 2/26/08; 2/24/09; 3/23/10; 5/24/11;4/24/12

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deputy treasurers to act on behalf of the City. The City Treasurer will provide written authorization in delegating any of his/her authority.

- B.** The City Manager will provide periodic oversight to the investment function which includes but is not limited to reviewing monthly investment reports issued by the City Treasurer.
- C.** The City Council's primary responsibilities over the investment function include approving the Investment Policy, annually reviewing such policy, reviewing monthly investment reports issued by the Treasurer, authorizing bond documents and other unique financing transactions, and authorizing any deviations from the City's investment policies.
- D.** The Finance Sub-Committee of the City Council will provide oversight to the investment function through the periodic review of the investment report at their committee meetings.
- E.** The City may engage the services of one or more external investment managers to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940.

V. Investment Procedures

- A.** The City Treasurer shall establish internal procedures for the operation of the investment program consistent with this policy. These procedures shall include, but are not limited to, the following items:
 - 1. Safekeeping
 - 2. Master repurchase agreements
 - 3. Wire transfer agreements
 - 4. Collateral/Depository agreements
 - 5. Broker/Dealer relationships
- B.** Cash handling and cash management are integral components of an effective investment management program. In keeping with the Administrative Policy on Cash Control, the aforementioned procedure manual shall include references to the following:
 - 1. Cash collection practices
 - 2. Depository practices
 - 3. Cash flow issues
 - 4. Cash flow projections
 - 5. Anti-theft/Anti-fraud practices
 - 6. Banking agreements
 - 7. Accounting practices
- C.** 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 City Treasurer.
- D.** Allocation of Pool Interest
 - 1. All interest earnings related to the investment pool will be allocated to the General Fund unless specifically directed by Federal or State statute, City Council directive or contractual agreement.
 - 2. The allocation methodology will be maintained by the City Treasurer.

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VI. Ethics and Conflict of Interest

- A. All officials, staff members and consultants, involved in the investment functions will refrain from personal business activity that could conflict with the execution of the investment function or which may impair their ability to make impartial investment decisions. Officials, staff members, and consultants, will disclose to the City Manager any financial interests with a financial institution, provider, dealer or broker that conducts business with the City.
- B. Officials, staff members and consultants will further disclose any personal financial positions that could be related to the City's cash and investment portfolio.
- C. All bond issue participants, including but not limited to, underwriters, bond counsel, financial advisors, brokers and dealers will disclose any fee sharing arrangements or fee splitting to the City Manager prior to the execution of any transactions. The providers must disclose the percentage share and approximate dollar amount share to the City prior to the execution of any transactions.

VII. Investment Controls

- A. The City Manager shall oversee and ensure that the City Treasurer implements and maintains a system of internal investment controls and segregated responsibilities of the investment function in order to prevent the following:
 - 1. Fraud
 - 2. Theft
 - 3. Loss of principal
 - 4. Loss of control over funds
 - 5. Inaccurate reporting
 - 6. Negligence
 - 7. Over-reliance on a single employee for investment decisions
- B. Internal controls should include but are not limited to (for a more specific list of internal controls see the investment management plan):
 - 1. Segregation of duties (e.g., the purchaser of investments is different than the person recording the transaction)
 - 2. Reconciliation of investment report and cash balances
 - 3. Dual authorization of transactions
- C. An external auditor will review the investment program annually in order to provide reasonable assurance that policy and procedures are complied with.

VIII. Authorized Financial Dealers and Institutions

- A. The City Treasurer will obtain financial information from qualified institutions to determine if the institution markets in securities appropriate to the City's needs, can assign qualified sales representatives, and can provide written agreement to abide by the conditions set forth in the City of Moreno Valley Investment Policy.
- B. The City Treasurer will maintain a list of financial institutions and broker/dealers authorized to provide investment services to the City who are authorized to provide investment services in the State of California. An eligible designation does not guarantee that the City will do business with the firm or institution.

Approved by: City Council
December 17, 1996

Revised 1/13/98; 1/12/99; 2/8/00; 1/3/01; 5/14/02; 11/22/05; 2/26/08; 2/24/09; 3/23/10; 5/24/11; 4/24/12

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- C. The following criteria will be used in determining investment providers
1. Broker/Dealers: The purchase by the City of any investment other than those purchased directly from the issuer shall be purchased from a broker/dealer firm designated as a "Primary Government Dealer" by the Federal Reserve Bank of New York or a regional dealer that qualifies under SEC Rule 15C3-1 (uniform net capital rule).
 2. Banks: The City shall purchase securities from banks which meet all of the following criteria:
 - a. Nationally or State chartered banks
 - b. Registered as investment securities dealers with the Securities and Exchange Commission
 - c. Independently rated "A" or higher by two nationally recognized statistical ranking organizations
 3. Investment Bankers, Underwriters and Financial Advisors: The purchase by the City of any investments from these providers in the course of completing a bond transaction must be expressly authorized by the City Council after such a provider discloses their commission, spread or fee in approximate dollar amount. Otherwise, the acquisition of such investments must be procured from the broker/dealers customarily used by the City.
 4. The Federal Reserve Bank: Direct purchases of Treasury bills, notes and bonds from the U.S. Federal Reserve Banks branches are allowed and are exempt from quality requirements.
- D. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must provide the following information to the City Treasurer:
1. A completed City of Moreno Valley Broker/Dealer Questionnaire
 2. Audited financial statements
 3. Proof of Financial Industry Regulatory Authority (FINRA) certification
 4. Trading resolution
 5. Proof of state registration
 6. Certification of having read and willingness to comply with City's investment policy.
- E. The City Treasurer will conduct an annual review of the financial condition and registrations of brokers/dealers on the City's approved list.
- F. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which or with which the City invests.
- G. Certificates of deposit will not be placed with an institution once it has received a Cease and Desist order from any bank regulatory agency.

IX. Authorized and Suitable Investments (with quality and limitation guidelines)

- A. The California Government Code sections 53600 et seq. governs the allowable investments into which a local government agency can enter. These Government Code sections also stipulate as to the portfolio percentage limits and investment quality standards for some but not all permitted investments. The Government Code sections provide a starting point for establishing the City quality standards, percentage limits and maturity levels. Should the Government Code become more restrictive than this policy, the Government Code restrictions shall prevail.

Approved by: City Council
December 17, 1996

Revised 1/13/98; 1/12/99; 2/8/00; 1/3/01; 5/14/02; 11/22/05; 2/26/08; 2/24/09; 3/23/10; 5/24/11; 4/24/12

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B. Whenever a maximum allowable percentage of the portfolio is stipulated for any type of security as detailed below, the limit or maximum allowable is determined by the portfolio size or composition at the close of the date on which the security is purchased.

C. Following is a table summarizing allowable investments for the City. This table summarizes and is consistent with California Government Code Sections 53600 and 53630 et seq.

INVESTMENT TYPE	MAXIMUM MATURITY	MAXIMUM SPECIFIED % OF PORTFOLIO	MINIMUM QUALITY REQUIREMENTS
Local Agency Bonds	5 years	— none —	— none —
U.S. Treasury Obligations	5 years	— none —	— none —
State Obligations — CA and Others	5 years	— none —	— none —
CA Local Agency Obligations	5 years	— none —	— none —
U.S Agency Obligations	5 years	— none —	— none —
Bankers’ Acceptances	180 days	40%	— none —
Commercial Paper —Select Agencies	270 days	25% of the agency’s invested funds	“A-1/P-1/F-1”; if the issuer has issued long-term debt it must be rated “A” without regard to modifiers
Commercial Paper —Other Agencies	270 days	40% of the agency’s invested funds	A-1/P-1/F-1”; if the issuer has issued long-term debt it must be rated “A” without regard to modifiers
Negotiable Certificates of Deposit	5 years	30%	— none —
CD Placement Service	5 years	30%	— none —
Repurchase Agreements	1 year	— none —	— none —
Reverse Repurchase Agreements and Securities Lending Agreements	92 days	20% of the base value of the portfolio	— none —
Medium-Term Notes	5 years	30%	“A” rating
Mutual Funds and Money Market Mutual Funds	n/a	20%	Multiple
Collateralized Bank Deposits	5 years	— none —	— none —
Mortgage Pass-Through Securities	5 years	20%	“AA” rating
Bank/Time Deposits	5 years	— none —	— none —
County Pooled Investment Funds	n/a	— none —	— none —
Joint Powers Authority Pool	n/a	—none —	Multiple
Local Agency Investment Fund (LAIF)	n/a	— none —	— none —

D. Investment Pools: A thorough investigation of an Investment Pool account is required prior to investing, and on a continual basis. The investigation must include information, if available, on the following items before investing:

1. A description of eligible investment securities, and a written statement of investment policy.
2. A description of interest calculations and distribution and how gains and losses will be treated.
3. A description of how the securities are safeguarded (including the settlement process), and how often the securities are priced and the program audited.

Approved by: City Council
December 17, 1996

Revised 1/13/98; 1/12/99; 2/8/00; 1/3/01; 5/14/02; 11/22/05; 2/26/08; 2/24/09; 3/23/10; 5/24/11;4/24/12

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4. A description of who may invest in the program, how often and what is the allowable size of deposits and withdrawals, and any limitations as to number of transactions.
 5. A schedule for receiving statements and portfolio listings.
 6. Are reserves, retained earnings, etc. utilized by the pool?
 7. Is the pool eligible for bond proceeds and/or will it accept such proceeds?
- E. Repurchase Agreements are legal and authorized by policy. In order to invest in repurchase agreements the City must obtain a signed Master Repurchase Agreement from the participating bank or broker/dealer.
- F. Prohibited Investment Transactions and Derivatives:
1. The Government Code specifically prohibits certain types of investment instruments for municipalities. In addition to those prohibitions, the following investments are not permitted:
 - a. Reverse Repurchase Agreements
 - b. Financial futures or financial option contracts
 - c. Security lending
 2. Additionally the City shall not invest in any security that could result in zero interest accrual if held to maturity.
 3. Due to the complexity of the securities market and ever-changing market conditions, it is difficult to define derivatives and specifically prohibit their acquisition. Therefore, the City desires to limit the potential risk of derivatives by specifically prohibiting the most common types of derivatives with certain market exposures. These prohibited derivatives include but are not limited to: inverse floaters, interest only securities derived from mortgages, residual securities, structured notes, forward based derivatives, forward contracts, forward rate agreements, futures contracts, interest rate futures contracts, foreign currency futures contracts, option based derivatives, option contracts, interest rate caps, interest rate floors, swap contracts, interest rate swaps, interest rate collars, foreign currency swaps, cross currency exchange agreements, fixed rate currency swaps, basis swaps, equity swaps, fixed rate equity swaps, floating rate equity swaps and commodity swaps.
 4. Leveraging
 - a. The City may not purchase investments on a margin or through a margin account.
 - b. The General Portfolio may not be leveraged by more than 30% through the issuance of tax and revenue anticipation notes (TRANS). The proceeds of any TRANS issue are to be invested in accordance with the guidelines in this policy, with investment maturities not to exceed the life of the TRANS.
 - c. The City may not leverage its investments through the use of reverse repurchase agreements.

X. Collateralization

- A. Bank Deposits: Under provisions of the Government Code, California banks and savings and loan associations are required to secure the City's deposits by pledging government securities with a value of 110% of principal and accrued interest. State law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total deposits.

Approved by: City Council
December 17, 1996

Revised 1/13/98; 1/12/99; 2/8/00; 1/3/01; 5/14/02; 11/22/05; 2/26/08; 2/24/09; 3/23/10; 5/24/11; 4/24/12

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- B. Certificates of Deposit:**
 - 1. The market value of securities that underlay certificates of deposit shall be valued at 110% of the market value of principal and accrued interest.
 - 2. The City Treasurer, at his/her discretion may waive the collateral requirement for deposits up to the maximum dollar amount which are covered by the Federal Deposit Insurance Corporation.
- C. Repurchase Agreements**
 - 1. The market value of securities that underlay certificates of deposit shall be valued at 102% of the market value of principal and accrued interest.
 - 2. The value shall be adjusted no less than weekly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back to 102% no later than the next business day.
- D.** A clearly marked evidence of ownership, safekeeping receipt, must be supplied to the City and retained.
- E.** The City chooses to limit collateral to US Treasuries.
- F.** Collateral will always be held by an independent third-party with whom the entity has a current written custodial agreement.
- G.** The right of collateral substitution is granted based on the approval of the City Treasurer and City Manager.

XI. Safekeeping, Custody and Competitive Bids

- A.** Third-party safekeeping is required for all investments. Securities may be maintained by a banking institution or a broker/dealer firm for safekeeping as long as the securities are held in the City's name.
- B.** Third-party safekeeping arrangements will be approved by the City Treasurer and will be corroborated by a written custodial agreement.
- C.** All investment transactions of the City will be conducted using standard delivery vs. payment (DVP) procedures.
- D.** All securities held by the safekeeping custodian on behalf of the City shall have the City of Moreno Valley as the registered owner, and all interest and principal payments and withdrawals shall indicate the City of Moreno Valley as the payee.
- E.** All bank deposits will be FDIC insured or deposited with institutions that comply with the State collateral requirements for public funds.
- F.** Securities used as collateral for repurchase agreements with a maturity from one to seven days can be held in safekeeping by a third party bank trust department or by the broker/dealer's safekeeping institution, acting as the agent for the City, under the terms of a custody agreement executed by the selling institution and by the City specifying the City's "perfected" ownership of the collateral.

Approved by: City Council
December 17, 1996

Revised 1/13/98; 1/12/99; 2/8/00; 1/3/01; 5/14/02; 11/22/05; 2/26/08; 2/24/09; 3/23/10; 5/24/11; 4/24/12

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- G. All investment transactions shall be conducted on a competitive basis with quotes from a minimum of three brokers or financial institutions when possible.

XII. Diversification and Credit Risk Management

- A. Investments contained within the portfolio will be diversified by security type, institution and maturity.
- B. The diversification requirements included in Section IX are designed to mitigate credit risk in the portfolio.
- C. No more than 5% of the total portfolio may be invested in securities of any single issuer, other than the US Government, its agencies and instrumentalities.
- D. The City may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions or City's risk preferences; and,
- E. If securities owned by City are downgraded by any nationally recognized statistical ratings organization to a level below the quality required by this Investment Policy, it shall be the City's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.
1. If a security is downgraded, the City Treasurer will use discretion in determining whether to sell or hold the security based on its current maturity, the economic outlook for the issuer, and other relevant factors.
 2. If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported monthly to the City Council.

XIII. Maximum Maturities

- A. The City Treasurer will maintain sufficient liquidity in cash and short-term investments, which together with projected revenue receipts will meet the cash flow requirements of the City for the upcoming six months.
- B. The City will not directly invest in securities maturing more than five years away from the settlement date. In any case, where a cash flow is matched with an investment which exceeds the five year limit, the investment must be approved by the City Council.
- C. The average weighted maturity of the general portfolio shall not exceed 3 years. The general portfolio does not include bond proceeds or deferred compensation funds.
- D. To the extent possible, longer-term investment maturities will be spaced so that a portion of such investments mature each year to cover unanticipated emergencies.

XIV. Performance Standards

- A. 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.
- B. The investment performance objective for the portfolio shall be to earn a total rate of return over a market cycle which is approximately equal to the return on a market benchmark Index of similar securities, as determined by the City Treasurer.

Approved by: City Council
December 17, 1996

Revised 1/13/98; 1/12/99; 2/8/00; 1/3/01; 5/14/02; 11/22/05; 2/26/08; 2/24/09; 3/23/10; 5/24/11; 4/24/12

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- C. **Market Return (Benchmark):** The City's investment strategy is active. Given this strategy, the basis used by the Treasurer to determine whether market return is being achieved shall be to identify a benchmark which reflects a portfolio structure that is comparable to the City's portfolio. *An example as it pertains to the long term portion of the portfolio would be the Bank of America Merrill Lynch Index of 1 to 5 Year Government securities.*

XV. Reporting

- A. The City Treasurer will provide a monthly report to the City Manager and City Council which will include the following information by security held at the end of the reporting period:
1. Investment Type
 2. Issuer
 3. Maturity Date
 4. Par Value
 5. Market Value
 6. Book Value
 7. Weighted Average Maturity
 8. Source of Market Valuation
 9. Monies maintained within the treasury
 10. Funds, investments and loans that are under the management of contracted parties
- B. Quarterly, and within 60 days of the completion of the quarter, the City Treasurer will submit a report to the City Council in open public meeting with the same investment information provided to the City Manager and City Council on a monthly basis with the addition of the following data:
1. A description of the compliance with the statement of investment policy, or manner in which the portfolio is not in compliance.
 2. A statement denoting the ability of the City to meet cash flow requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

XVI. Investment Policy Adoption

- A. Annually, the City Treasurer will render to the City Council a Statement of Investment Policy, including any changes or revisions, to be reviewed and approved at a public meeting.

XVII. Record Retention

- A. The following investment or cash management documents will be maintained in accordance with Chapter 2.60 of Title 2 of the City of Moreno Valley Municipal Code:
1. Investment Reports and supporting documentation
 2. Third-party statements of assets held
 3. Investment permanent files
 4. Market pricing documentation