

	CITY OF PALM DESERT ADMINISTRATIVE PROCEDURES	
	<i>Subject</i>	Investment Policy
	<i>Policy No.</i>	FIN - 002
	<i>Date</i>	Issued: April 11, 2019 Revised: November 19, 2020
	<i>Approved by</i>	Resolution Nos. 2020-79, SARDA-080, FA-70, HA-99. (prev. 2019-15, SARDA 076, HA-91, FA-69)
	<i>Authored by</i>	Finance Department

1.0 Policy

The policy of the **City of Palm Desert**, the **Successor Agency to the Palm Desert Redevelopment Agency**, the **Palm Desert Housing Authority**, the **Palm Desert Financing Authority**, and the **Palm Desert Recreational Facilities Corporation** (hereafter referred to collectively as the “City”) is to invest public funds with the goals of preserving capital, meeting the City’s daily cash needs, and achieving a market rate of return, while complying with all federal, state, and local laws.

2.0 Scope

This investment policy will apply to all funds over which the Treasurer’s Office has fiduciary responsibility and direct management control.

3.0 Prudence

The Treasurer’s Office follows the “Prudent Investor Standard”, which requires treasury officers to manage the City investment portfolio with the care, skill, prudence, and diligence that a prudent investor who is similarly situated would use, based upon general economic conditions and the City’s anticipated needs, in order to safeguard principal and to maintain liquidity (*Cal. Govt. Code*, section 53600.3).

Treasury officers, who follow the provisions of this policy and who exercise due diligence, will be relieved of personal responsibility for a security’s credit risk or market price risk if they report substantial deviations from expectations to the city manager and to the Finance Committee in a timely manner, and if they take appropriate action to control adverse developments.

Investment Policy
Effective January 1, 2021

“Substantial deviations” is defined as either a decline of 10 percent or more in the market value of a security due to issuer default, a credit risk downgrade, or the sale of a security prior to maturity at 10 percent or more below its acquisition cost.

4.0 Objectives

The City’s investment objectives, in order of priority, are:

4.0.1 Safety

Safety of principal is foremost. Investments should be made with the aim of avoiding capital losses due to credit risk and to market price risk. Credit risk can be mitigated by investing in high-quality securities, diversifying investments, and pre-qualifying securities brokers and public depositories. Market price risk can be mitigated by matching debt maturities with anticipated cash requirements so that a premature sale of securities will not be necessary. It is recognized, however, that in a diversified portfolio, occasional measured losses are inevitable and must be considered within the context of overall investment return.

4.0.2 Liquidity

The City investment portfolio should be kept sufficiently liquid so that all operating requirements, which might be reasonably anticipated, can be met. The portfolio should consist largely of relatively low-duration securities with active secondary markets. *An amount equal to the City’s annual budget must be held in cash or invested in laddered securities that mature in less than one year.*

4.0.3 Yield

Yield should be considered only after the basic requirements of safety and liquidity have been met. The City investment portfolio should be structured to achieve a market rate of return, without compromising safety and liquidity. *The average monthly yield of the State of California Local Agency Investment Pool (“LAIF”) will represent the market rate of return and will serve as the portfolio performance benchmark.*

Investment Policy
Effective January 1, 2021

5.0 Delegation of Authority

The Palm Desert City Council is authorized to invest, to deposit, and to provide for the safekeeping of the City's funds, or to delegate those responsibilities to a city treasurer (*Cal. Govt. Code*, sections 53607 and 53608). The City Council has delegated those responsibilities to the city treasurer (*Palm Desert, California, Municipal Code*, section 3.08.010). The director of finance serves ex officio as city treasurer (*Palm Desert, California, Municipal Code*, section 2.16.010). The city treasurer, or their designee, has exclusive authority to buy and sell securities on the City's behalf. The city treasurer must authorize all investment transactions, in writing, prior to initiation. If the city treasurer is unavailable, then the assistant finance director must perform that task.

6.0 Investment Procedures

The city treasurer will develop written procedures for the City's investment program that are consistent with the provisions of this policy. These procedures will include safekeeping, repurchase agreements, banking service contracts, and collateral/depository agreements. They will also address the explicit delegation of authority to individuals who are responsible for investment transactions. No person may engage in an investment transaction except as provided for under the terms of this policy and under the procedures that the city treasurer establishes.

7.0 Conflicts of Interest

Treasury officers must refrain from personal business activity that could conflict with the proper execution of the City's investment program, or impair their ability to make impartial investment decisions. They must disclose to the City Council any material financial interest in financial institutions that do business in the City of Palm Desert.

8.0 Authorized Broker-Dealers and Financial Institutions

The City Council will review and approve the securities broker-dealers that are authorized to do business with the City. Authorized broker-dealers are listed in Appendix A of this policy.

Only primary government securities dealers ("primary dealers") that regularly report to the Federal Reserve Bank of New York will be eligible for inclusion on the City's authorized list.

Investment Policy
Effective January 1, 2021

The only exception to the foregoing will be that the City Council may, at its discretion, accept, review, and approve Requests for Information (“RFI”) from secondary securities brokers that: (1) have been in existence for more than five years; (2) have a net capital position in excess of \$100 million; (3) are licensed as brokers by the State of California; and (4) are headquartered or have a branch office in California.

The total number of authorized broker-dealers must not exceed four. The City will accept and review new broker-dealer applications only when there is an immediate need to fill a vacancy on the authorized list. The Treasurer’s Office will only accept RFIs from and transact business with the *institutional securities sales departments* of broker-dealers. The Treasurer’s Office must not transact business with an authorized broker-dealer until all of the documentation that both parties require has been executed and delivered.

All broker-dealers who wish to apply for inclusion on the authorized list must, at a minimum, provide the Treasurer’s Office with a copy of the following documents unless otherwise noted:

- 8.0.1** Completed “Broker-Dealer Request for Information” (*signed original only*).
- 8.0.2** The firm’s most recent Annual Report and Securities and Exchange Commission (“SEC”) Form 10-K or 20-F.
- 8.0.3** The firm’s National Association of Securities Dealers (“NASD”) Form BD -- Uniform Application for Broker-Dealer Registration or, in the case of an investment department within a commercial bank, SEC Form MSD.
- 8.0.4** The firm’s current NASD Form BD Status Report.
- 8.0.5** NASD Form U-4 -- Uniform Application for Securities Industry Registration or Transfer for each employee who might be trading with the City.
- 8.0.6** Current NASD Form U-4 Status Report on each employee who might be trading with the City.
- 8.0.7** A resume from each of the firm’s employees who might be trading with the City.
- 8.0.8** The firm’s delivery and wiring instructions.

Investment Policy
Effective January 1, 2021

8.0.9 An executed corporate resolution that identifies employees who are authorized to trade with the City.

8.0.10 The firm's current investment policy.

In addition to the above documents, secondary brokers must also submit:

8.0.11 The firm's most recent SEC Form X-17 A-5 or, in the case of an investment department within a commercial bank, SEC Consolidated Reports of Condition and Income for A Bank with Domestic and Foreign Offices -- FFIEC 031.

The Treasurer's Office will investigate all broker-dealer applicants in order to determine if they: (1) are adequately capitalized; (2) are subject to pending legal action (either the firm or the trader); (3) make markets in securities that are appropriate for the City's needs; (4) are licensed as a broker by the State of California Department of Corporations; and (5) are a member of the National Association of Securities Dealers. Broker-dealer applicants will be required to provide California state or local government references.

Any broker-dealer that has made a political contribution to any member of or candidate for the City Council, the RDA Successor Agency – Palm Desert Board, the Housing Authority Commission, or the Palm Desert Finance Committee in an amount that exceeds the limits in Municipal Securities Rulemaking Board ("MSRB") Rule G-37, within any consecutive four-year period following January 1, 1996, will be ineligible to transact business with the City.

The City Council will consider the submitted documents, along with the treasury officers' recommendations, and decide if any new broker-dealers should be added to the authorized list. If, in the City's opinion, a broker-dealers RFI is missing, incomplete, or late (submitted after the specified deadline), contains false or misleading information, or if the broker has not submitted all of the documents that the City requires, then the City will automatically reject the broker-dealers RFI and that broker-dealer will not be eligible to submit another RFI to the City for three years.

The city treasurer may terminate a broker-dealer for trade fails, trade errors, excessive staff turnover, failure to provide notice of a significant event, inflated pricing, adverse change in financial condition, failure to comply with solicitation instructions, pending litigation against broker-dealer by City, violation of City's gift ban policy, selling inappropriate investments,

Investment Policy
Effective January 1, 2021

unethical behavior, collusion on pricing, tardiness in submitting offers, yield burning, lack of business due to a mismatch between city needs and broker-dealer inventory, or an insufficient volume of City business to justify broker-dealer retention.

The City Council must review and approve all commercial banks, savings associations, federal associations (as defined by *Cal. Fin. Code*, section 5102), and trust companies that are authorized as public depositories of City monies in the form of checking, savings, and money market accounts and certificates of deposit. Authorized financial institutions are listed in Appendix A of this policy.

The City will only deposit public monies in financial institutions that have:

- 8.0.12** At least \$50 billion in total assets. The only exception to the foregoing is that, under special circumstances, the City may procure limited services from a financial institution that has at least \$5 billion in total assets. Such services may include those that a larger financial institution does not provide, are more expensive if a larger financial institution does provide them, or are offered by a smaller financial institution on more flexible terms that better suit the City's needs. Under this exception, deposits made will not exceed one-tenth of one percent (0.1%) of the City investment portfolio.
- 8.0.13** A core capital-to-total assets ratio of at least five percent.
- 8.0.14** Favorable statistical ratings from a nationally recognized statistical rating organization ("NRSRO"), as determined by the city treasurer.
- 8.0.15** A federal or state charter.
- 8.0.16** A branch office within Riverside County.
- 8.0.17** A "satisfactory" overall rating in their most recent evaluation by the appropriate federal financial supervisory agency in terms of meeting the credit needs of California communities, pursuant to federal law.

Investment Policy
Effective January 1, 2021

The City cannot deposit funds into a financial institution if the sum of the City's deposits would exceed the total shareholders' equity of the institution.

9.0 Authorized Investments

The City Council has authorized the Treasurer's Office to invest in the following financial instruments under the terms and conditions stated below (*Cal. Govt. Code, section 53600, et seq.*). All non-pooled securities must mature within five years unless the City Council has approved longer maturities for the investment of bond reserve, bond escrow, and other funds.

No.	Type of Investment	% of Portfolio Authorized	Other Restrictions
1.	United States Treasury bills, notes, bonds, or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.	100%	Maximum maturity: 5 Years
2.	Federal Agency or United States government-sponsored enterprise ("GSE") obligations, participations, or other instruments, including those that Federal Agencies or GSEs have either issued or fully guaranteed as to principal and interest.	100%	Maximum maturity: 5 years No more than 30% of the portfolio may be invested in any single issuer (<i>excluding the proceeds of tax-exempt bonds</i>).
3.	California State and Local	25%	Maximum maturity: 5 Years

Investment Policy
Effective January 1, 2021

No.	Type of Investment	% of Portfolio Authorized	Other Restrictions
	<p>Agency debt obligations that a state or local agency, or a department, board, agency, or authority of a state or local agency has issued as general obligation bonds or revenue bonds.</p>		<p>Rated "A" or higher by S&P <i>or</i> by Moody's.</p>
4.	<p>Commercial Paper ("CP") (Non-Pooled Fund) that general corporations organized and operating in the United States with assets exceeding \$500 million issue.</p>	25%	<p>Maximum maturity: 270 days</p> <p>Rated "A-1" by S&P <i>or</i> "P-1" by Moody's.</p> <p>No more than 10% of the portfolio may be invested in the CP and MTNs of any single issuer.</p> <p>Asset-backed CP is ineligible for purchase.</p>
5.	<p>Negotiable Certificates of Deposit ("NCD") that a nationally- or state-chartered bank, a savings association, a federal association, or a state-licensed branch of a foreign bank issue.</p>	5%	<p>Maximum maturity: 5 years</p> <p>Long-term debt rated "AA-" higher by S&P <i>or</i> by Moody's.</p>
6.	<p>Time Certificates of Deposit ("TCD") that qualified public depositories issue.</p>	5%	<p>Maximum maturity: 1 year</p> <p>TCDs exceeding the FDIC limit must be collateralized.</p>

Investment Policy
Effective January 1, 2021

No.	Type of Investment	% of Portfolio Authorized	Other Restrictions
			<p>TCDs must be centralized at one location for each bank or S&L.</p> <p>If TCD is uncollateralized, then no more than 90 percent of the FDIC limit may be invested per TCD.</p> <p>Issuing public depository must meet qualifying criteria on Pages 5 and 6 of this policy.</p>
7.	<p>Repurchase Agreement ("RP") that authorized brokers sell.</p>	10%	<p>Maximum maturity: 30 days</p> <p>Collateral must be United States Treasury, Federal, Agency, or GSE obligations.</p> <p>Zero coupon and stripped coupon instruments are not acceptable as collateral.</p> <p>Collateral must be valued at 102% of cost and adjusted weekly.</p> <p>City must have first lien and security interest in all collateral.</p> <p>City's custodian must hold collateral.</p> <p>An authorized broker must file a Public Securities Association ("PSA") Master Repurchase Agreement with the city treasurer, and the city attorney must review the agreement, prior to the transaction of RP business with that broker.</p>

Investment Policy
Effective January 1, 2021

No.	Type of Investment	% of Portfolio Authorized	Other Restrictions
8.	<p>Medium-Term Notes (“MTNs”) that corporations organized and operating in the United States, or depository institutions operating in the United States and licensed by the United States or by any state, issue.</p>	25%	<p>Maximum maturity: 5 years</p> <p>Rated “A” or higher by S&P <i>or</i> by Moody’s.</p> <p>No more than 10% of the portfolio may be invested in the CP and MTNs of any single issuer.</p>
9.	<p>Money Market Mutual Funds (“MMF”) that are registered with the SEC under the Investment Act of 1940.</p>	<p>20% <i>(excluding bond proceeds)</i></p>	<p><i>Either</i> rated “AAA” by S&P, “Aaa” by Moody’s, or “AAA-V-1+” by Fitch (2 of 3), <i>or</i> retains an investment advisor registered or exempt from registration with SEC, with at least 5 years of experience managing a MMF with \$500 million or more in assets.</p> <p>MMF must have dollar-weighted average maturity of 90 days or less.</p> <p>MMF must buy securities that mature in 13 months or less.</p> <p>No commission may be charged.</p>
10.	<p>State of California Local Agency Investment Fund (“LAIF”) that the State Treasurer’s Office manages.</p>	<p>Up to maximum (currently \$75,000,000 per account)</p>	<p>City Council and Redevelopment Agency approved participation in LAIF on 12/12/81 in Resolution No. 81-161.</p> <p><i>(Bond trustee accounts have no deposit limit)</i></p>

Investment Policy
Effective January 1, 2021

No.	Type of Investment	% of Portfolio Authorized	Other Restrictions
11.	Structured Notes in the form of callable securities or "STRIPS" that the United States Treasury, Federal Agencies, or government-sponsored enterprises ("GSEs") issue.	20%	Maximum maturity: 5 years
12.	Local Government Investment Pools , such as LAIF, CAMP, or California county investment pools.	75% <i>(excluding bond proceeds)</i>	As required by law under the <i>Cal. Govt. Code</i> .

10.0 Prohibited Investments and Strategies

The purchase of inverse floaters, range notes, mortgage-derived, interest-only strips, and securities that result in zero-interest accrual if held to maturity are prohibited (*Cal. Govt. Code*, section 53601.6). The purchase of asset-backed securities, bond mutual funds, mortgage-backed securities, reverse-repurchase agreements, and derivative contracts (forwards, futures, options, and swaps) are also prohibited.

Active investment strategies, such as market timing, sector rotation, or benchmark indexing are prohibited. Securities lending, short selling, and other hedging strategies are also prohibited.

Local government investment pools and money market mutual funds will be exempt from the prohibitions on derivative contracts, derivative securities, reverse repurchase agreements, securities lending, short selling, and other hedging strategies.

11.0 Investment Pools/Mutual Funds

The Treasurer's Office must conduct a thorough investigation of an investment pool or mutual fund prior to purchasing its shares. The Treasurer's Office will develop a questionnaire that addresses the following issues with respect to the pool or fund:

- 11.0.1** A description of eligible investment securities and a written statement of investment policy and objectives.
- 11.0.2** A description of interest calculations, how interest is distributed, and how gains and losses are treated.
- 11.0.3** A description of how the securities are safeguarded (including the settlement process), how often they are priced, and how often the pool or fund is audited.
- 11.0.4** A description of who may invest in the pool or fund, how often, and the size of deposits and withdrawals that are allowed.
- 11.0.5** A schedule for receiving statements and portfolio listings.
- 11.0.6** Verification of whether the pool or fund uses reserves or retained earnings.

Investment Policy
Effective January 1, 2021

11.0.7 A fee schedule and when and how it is assessed.

11.0.8 The eligibility of the pool or fund for bond proceeds, and whether the pool or fund will accept them.

12.0 Portfolio Management Strategy

The Treasurer's Office will invest public funds using a *passive strategy* of buying and holding fixed-income securities. Whenever possible, a bond ladder will be constructed with laddered maturities that match anticipated cash flow dates. Securities may be sold prior to maturity only to: 1) address an actual or potential deterioration in credit quality; 2) rebalance the portfolio; or 3) meet unanticipated financial obligations.

The Treasurer's Office, however, may *actively manage* the City's holdings in local government investment pools that seek to maintain a constant net asset value of \$1.00 per share, in order to maximize income, so long as there is no risk of principal loss.

13.0 Portfolio Rebalancing

If portfolio percentage constraints are violated due to a temporary imbalance in the portfolio, then treasury officers should hold the affected securities to maturity in order to avoid capital losses.

If no capital losses would be realized upon sale, however, then treasury officers should consider rebalancing the portfolio after evaluating the expected length of time that it will be imbalanced.

Portfolio percentage limits are in place in order to ensure diversification of the City investment portfolio. A small, temporary imbalance will not significantly impair that strategy.

14.0 Credit Downgrading

This policy sets forth minimum credit-risk criteria for each security. This criteria applies to the initial purchase of a security. It does not automatically force the sale of a security if the security's credit-risk ratings fall below policy limits.

If a security is downgraded below the minimum credit-risk criteria specified in this policy, then treasury officers should evaluate the downgrade on a

Investment Policy

Effective January 1, 2021

case-by-case basis in order to determine whether the security should be held or sold.

The city treasurer will inform the city manager and the Finance Committee at its next meeting of the credit downgrade and the treasury officers' decision to hold or sell the downgraded security.

Treasury officers should review the credit standing of all securities in the City's investment portfolios annually, at a minimum.

15.0 Safekeeping and Custody

All securities transactions will be done on a delivery-versus-payment ("DVP") or a receipt-versus-payment ("RVP") basis. A third-party bank trust department ("Custodian") that acts as an agent for the City, under the terms of a custody agreement executed between both parties, will hold the securities. The custodial bank must be one of the 20 largest commercial banks in the world, as measured by total assets. The City's Custodian is listed in Appendix A of this policy.

The only exception to the foregoing will be securities purchases made with:

- 15.0.1** Local government investment pools.
- 15.0.2** Money market mutual funds.
- 15.0.3** Federal Reserve Banks ("Treasury Direct Program") since the purchased securities are not deliverable.

No securities broker or investment advisor should have access to City monies, accounts, or investments. The city treasurer's prior approval, in writing, is required for any transfer of monies to or through a securities broker. If the city treasurer is unavailable, then the assistant finance director must authorize the transfer, in writing.

Broker trade confirmations are required for all trades. These confirmations must be reviewed immediately upon receipt, for conformity with the terms of the City's trade sheets.

16.0 Collateralization

Investment Policy

Effective January 1, 2021

All demand deposits and time deposits that are not insured by the Federal Deposit Insurance Corporation ("FDIC"), the Federal Savings and Loan Insurance Corporation ("FSLIC"), or the National Credit Union Administration ("NCUA") must fully collateralized in accordance with *Cal. Govt. Code*, section 53652. An independent third party must hold the collateral.

Collateralized investments and demand deposits may require substitution of collateral. The city treasurer must approve all requests from financial institutions for substitution of collateral that involves interchanging classes of securities.

17.0 Bond Proceeds

The city treasurer must segregate the gross proceeds of tax-exempt bonds from the City general pool and keep them in a separate pool. They must be invested in accordance with the instructions in their respective bond indentures of trust. The city's bond trustee ("Trustee") will hold all tax-exempt securities in third-party safekeeping. DVP and RVP rules will apply. The City's Trustee is listed in Appendix A of this policy.

Under the Tax Reform Act of 1986, the City is required to perform annual arbitrage calculations and to rebate excess earnings from the investment of the gross proceeds of tax-exempt bonds that were sold after the effective date of this law, to the United States Treasury. The city treasurer may contract with qualified outside financial consultants to provide the necessary technical expertise that is required in order to comply with this law.

18.0 Internal Controls

The city treasurer should ensure that all investment transactions comply with City policy. The Treasurer's Office should establish internal controls that are designed to prevent losses due to fraud, negligence, and third-party misrepresentation.

Internal controls deemed most important would include avoidance of collusion, separation of duties and administrative controls, separating transaction authority from accounting and recordkeeping, 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,

Investment Policy

Effective January 1, 2021

documentation of investment transactions and strategies, and monitoring of results.

The city treasurer must also establish a process of independent review by an audit firm of the City's investment program every three years. The audit firm must review the program's management in terms of compliance with the internal controls that City policy specifies.

A Finance Committee consisting of City officials and community representatives will be responsible for reviewing the City investment reports, transactions, policies and procedures, and strategies on at least a quarterly basis. The City Council will establish bylaws for the Finance Committee.

19.0 Reporting

The city treasurer must provide the City Council with a monthly investment report within 30 days after Finance Committee review of that report.

In accordance with the provisions of Governmental Accounting Standards Board ("GASB") Statement Number 40, as amended March 2003, the monthly investment report must:

- 19.0.1** Organize individual securities, such as U.S. Treasuries, corporate bonds, and commercial paper, by investment type. Dissimilar investments, such as U.S. Treasury bills and Treasury strips, should not be aggregated.
- 19.0.2** List the credit-risk ratings of at least two NRSROs for each security, mutual fund, or investment pool. If the security, mutual fund, or investment pool has no rating, then it should be shown as "unrated".
- 19.0.3** Disclose the amount of individual securities and corresponding issuers that exceed five percent of net plan assets, except for securities that the U.S. Government guarantees, money market mutual funds, and external investment pools.
- 19.0.4** Use the specific identification method to reflect interest-rate risk by investment type and amount.

Investment Policy
Effective January 1, 2021

The monthly investment report must include a complete portfolio inventory with details on issue, par value, book value, coupon/rate, original settlement date of purchase, final maturity date, CUSIP number, average-weighted yield, average days-to-maturity, and market value (including source of market valuation). The report must also include a statement on compliance or noncompliance with the City investment policy, and a statement on whether there are sufficient funds to meet the City's anticipated cash requirements for the next six months.

20.0 Investment Policy Adoption

This policy will be updated, as needed, and will remain in effect until a new policy is adopted, at least once every five years. Any proposed revisions to the policy must first be submitted to the Finance Committee for review and then to the City Council for review and adoption.

Appendix A: List of Authorized Financial Institutions

The Treasurer's Office is authorized to transact investment and depository business with the following financial institutions.

UNITED STATES GOVERNMENT

1. Federal Reserve Bank

PRIMARY DEALERS

1. J.P. Morgan Securities LLC
2. Wells Fargo Securities LLC

SECONDARY BROKERS

1. Piper Sandler & Company
2. Stifel, Nicolaus & Company

PUBLIC DEPOSITORIES*

1. Citibank, N.A.
2. JP Morgan Chase & Co.
3. MUFG Union Bank, N.A.

CUSTODIAN

1. Union Bank Global Custody Services

TRUSTEE

1. U.S. Bank Global Corporate Trust Services

*Exceptions are limited to those financial institutions defined in section 8.0.12.