

City of Arcadia

Statement of Investment Policy

Fiscal Year 2024-2025

The City of Arcadia (the “City”), incorporated in 1903 is located approximately 20 miles northeast of downtown Los Angeles in the San Gabriel Valley, at the base of the San Gabriel Mountains. It is the site of the Santa Anita Park racetrack and home to the Los Angeles County Arboretum and Botanic Garden. The City is a charter city and operates under a council/manager form of government (Charter Section 300). The City is governed by a city council (the “Council”) of five members elected at-large (Charter Section 400), whom selects the City Manager (Charter Section 600). The Arcadia Redevelopment Agency is a component unit of the City, which was established in 1968 and governed by the same Council and City Manager. The Redevelopment Agency was ceased in 2013 due to a change in state law; however, the City remains the custodian of funds and serves as the Successor Agency to the Arcadia Redevelopment Agency. Hereinafter the City and Successor Agency are collectively referenced as the “the City”.

The Council has adopted this Investment Policy to establish the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, eligible investments and transactions, diversification requirements, risk tolerance, and safekeeping and custodial procedures for the investment of the funds of the City. All City funds will be invested in accordance with this Investment Policy and with applicable sections of the California Government Code.

This Investment Policy was endorsed and adopted by the City Council of the City of Arcadia on June 4, 2024. It replaces any previous investment policy or investment procedures of the City, unless otherwise directed by the City Council.

SCOPE

The provisions of this Investment Policy shall apply to all financial assets of the City as accounted for in the City’s Annual Comprehensive Financial Report, except for retirement funds held in trusts. Deposits with banks under the provision California Government Code’s “Deposit of Funds” provisions are excluded from this Policy’s requirements.

All cash shall be pooled for investment purposes. The investment income derived from the pooled investment account shall be allocated to the contributing funds based upon the proportion of the respective balances relative to the total pooled balance in the investment portfolio. Investment income shall be distributed to the individual funds on a monthly basis.

OBJECTIVES

The City’s funds shall be invested in accordance with the City Municipal Code, all applicable City resolutions, California statutes, and Federal regulations, and in a manner designed to accomplish the following objectives, which are listed in priority order:

1. Preservation of capital and protection of investment principal.
2. Maintenance of sufficient liquidity to meet anticipated cash flows.

3. Attainment of a market rate of return.
4. Diversification to avoid incurring unreasonable market risks.

DELEGATION OF AUTHORITY

The management responsibility for the City's investment program is delegated annually by the City Council to the City Treasurer pursuant to California Government Code Section 53607. The City's Administrative Services Director also serves as the City Treasurer. The Administrative Services Director is delegated by the City Manager to oversee the City's investment and finance operation and has ultimate responsibility of the investment operation. The Administrative Services Director may delegate the authority to conduct investment transactions and to manage the operation of the investment portfolio to the Accounting Supervisor. No person may engage in an investment transaction except as expressly provided under the terms of this Investment Policy.

The City Treasurer shall maintain a system of internal controls, consistent with this Investment Policy, for the operation of the City's investment program. Such a system shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the City.

The City may engage the support services of outside investment advisors in regard to its investment program, so long as it can be clearly demonstrated that these services produce a net financial advantage or necessary financial protection of the City's financial resources.

PRUDENCE

The standard of prudence to be used for managing the City's investments shall be California Government Code Section 53600.3, the prudent investor standard, which states,

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.

The City's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City recognizes that no investment is totally without risk and that the investment activities of the City are a matter of public record. Accordingly, the City recognizes that occasional measured losses may be desirable in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the City.

The City Treasurer and authorized investment personnel acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes.

ETHICS AND CONFLICTS OF INTEREST

Elected officials and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the City's investment program or could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Also, elected officials and employees involved in the investment process shall not participate in any decision on behalf of the City in which they have a financial interest as set forth in the Political Reform Act of the State of California and related regulations. The City Manager, the Administrative Services Director, City Treasurer, and any other staff authorized to engage in investment operation shall file a Statement of Economic Interests each year pursuant to California Government Code Section 87203 and regulations of the Fair Political Practices Commission.

AUTHORIZED SECURITIES AND TRANSACTIONS

All investments and deposits of the City shall be made in accordance with California Government Code Sections 16429.1, 53600-53609 and 53630-53686, except that, pursuant to California Government Code Section 5903(e), proceeds of bonds and any moneys set aside or pledged to secure payment of the bonds may be invested in securities or obligations described in the ordinance, resolution, indenture, agreement, or other instrument providing for the issuance of the bonds. Any revisions or extensions of these code sections will be assumed to be part of this Investment Policy immediately upon being enacted.

The City has further restricted the eligible types of securities and transactions as follows. Percentage holding limits listed in this Policy apply at the time the security is purchased. To promote diversification, no more than 5% of the portfolio may be invested in the securities of any one issuer, regardless of security type; excluding U.S. Treasuries, federal agencies, supranationals, and pooled investments such as LAIF, money market funds, or local government investment pools. Credit ratings, where shown, specify the minimum credit rating category required at purchase. Securities that have been downgraded after purchase to a level that is below the minimum ratings described herein may be sold or held at the City's discretion. The portfolio will be brought back into compliance with Investment Policy guidelines as soon as is practical.

1. United States Treasury bills, notes or bonds with a final maturity not exceeding five years from the date of trade settlement. There is no limitation as to the percentage of the City's portfolio that may be invested in this category.
2. Federal Instrumentality 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. There is no limitation as to the percentage of the City's portfolio that may be invested in this category.
3. Repurchase Agreements with a final termination date not exceeding 30 days collateralized by U.S. Treasury obligations or Federal Instrumentality securities listed in items 1 and 2 above with the maturity of the collateral not exceeding five years. For the purpose of this section, the term collateral shall mean purchased securities under

the terms of the City's approved Master Repurchase Agreement. The purchased securities shall have a minimum market value including accrued interest of 102% of the dollar value of the funds borrowed. Collateral shall be held in the City's custodian bank, as safekeeping agent, and the market value of the collateral securities shall be marked-to-the-market daily.

Repurchase Agreements shall be entered into only with broker/dealers who are recognized as Primary Dealers with the Federal Reserve Bank of New York, or with firms that have a Primary Dealer within their holding company structure. Repurchase agreement counterparties shall execute a City approved Master Repurchase Agreement with the City. The City Treasurer shall maintain a copy of the City's approved Master Repurchase Agreement and a list of the broker/dealers who have executed same.

4. Supranational Obligations United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less from the date of trade settlement, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by one Nationally Recognized Statistical Rating Organizations ("NRSRO"). A maximum of 30% the City's portfolio may be invested in this category.
5. Prime Commercial Paper with a maturity not exceeding 270 days from the date of trade settlement with the highest ranking or of the highest letter and number rating as provided for by one NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either Subparagraph A or B below:
 - A. The entity shall (1) be organized and operating in the United States as a general corporation, (2) have total assets in excess of five hundred million dollars (\$500,000,000) and (3) have debt other than commercial paper, if any, that is rated in a rating category of "A" or the equivalent or higher by one NRSRO.
 - B. The entity shall (1) be organized within the United States as a special purpose corporation, trust, or limited liability company, (2) have program wide credit enhancements, including, but not limited to, over collateralization, letters of credit or surety bond, and (3) have commercial paper that is rated at least "A-1" or the equivalent by one NRSRO.

The aggregate investment in commercial paper shall not exceed 25% of the City's total portfolio. If the City's assets under management exceed \$100 million, then the aggregate investment in commercial paper shall not exceed 40% of the City's total portfolio.

6. Eligible Bankers Acceptances with a maturity not exceeding 180 days from the date of trade settlement, issued by a national bank with combined capital and surplus of at least \$250 million, whose deposits are insured by the FDIC, and whose senior long-term debt is rated in a rating category of "A" or the equivalent or higher by one NRSRO

at the time of purchase. The aggregate investment in banker's acceptances shall not exceed 15% of the City's total portfolio.

7. Medium Term Notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Medium Term Notes must be rated in a rating category of "A" or higher by one NRSRO at the time of purchase with a final maturity not exceeding five years from the date of trade settlement. A maximum of 30% of the City's portfolio may be invested in this category.
8. Asset-Backed Securities A mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond For securities eligible for investment under this subdivision not issued or guaranteed by an agency or issuer identified in subdivisions (1) or (2) above, the following limitations apply:
 - A. The security shall be rated in a rating category of "AA" or its equivalent or better by one NRSRO and have a maximum remaining maturity of five years or less from the date of trade settlement.
 - B. A maximum of 20% the City's portfolio may be invested in this category.
9. 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. Purchases of negotiable certificates of deposits are subject to the limitations of Section 53601(i), which limits the amount that may be invested in this category to 30% of the City's portfolio.
10. Non-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. Purchases of non-negotiable certificates of deposits are subject to the requirements of Sections 53601(n) and 53638 and shall be fully insured by the FDIC or NCUA with a corresponding certification number. A maximum of 20% the City's portfolio may be invested in this category.
11. Placement Service Deposits Private sector entities may be used to place bank deposits subject to the limitations of Sections 53601.8. All deposits shall be fully insured by the FDIC. A maximum of 20% the City's portfolio may be invested in this category.
12. State of California's Local Agency Investment Fund (LAIF), pursuant to California Government Code Section 16429.1. The maximum amount of the City's portfolio that may be invested in this category is subject to LAIF's limit for general accounts.
13. Money Market Funds registered under the Investment Company Act of 1940 that (1) are "no-load" (meaning no commission or fee shall be charged on purchases or sales of shares); (2) are Government Money Market Funds; and (3) have a rating of at least

AAA or the equivalent by one NRSRO. The aggregate investment in money market funds shall not exceed 20% of the City's total portfolio.

14. Local Government Investment Pools Shares of beneficial interest issued by a joint powers' authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in Government Code. The City will limit investments to LGIPs that have a rating of AAA or the equivalent by one NRSRO.

15. Municipal & State Obligations:

- A. Municipal bonds including registered notes or bonds of any of the 50 states, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the 50 states.
- B. In addition, bonds, notes, warrants, or other evidences of indebtedness of any local agency in California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

Municipal bonds must be rated in a rating category of "A" or the equivalent or higher by one NRSRO with maturities not exceeding five years from the date of trade settlement. The aggregate investment in municipal bonds may not exceed 20% of the portfolio.

PROHIBITED INVESTMENTS

The City shall not invest in any investment authorized by the Government Code but not explicitly listed in this Policy without the prior approval of the City Council. Furthermore, the City will not invest in inverse floaters, range notes, mortgage-derived, interest-only strips, or any security that could result in zero interest accrual if held to maturity, except as allowed by Government Code Section 53601.6. The City may hold any previously permitted but currently prohibited investments until their maturity dates.

SELECTION OF BROKER/DEALERS

The City Treasurer, after review and approval by the Administrative Services Director and City Manager, shall maintain a list of broker/dealers approved for investment purposes, and it shall be the policy of the City to purchase securities only from those authorized firms. To be eligible, a firm must be licensed by the State of California as a broker/dealer as defined in Section 25004 of the California Corporations Code. Broker/dealers will be selected on the basis of their expertise in public cash management and their ability to provide service to the City's account.

The City may engage the services of investment advisory firms to assist in the management of the portfolio and investment advisors may utilize their own list of approved Broker/Dealers. Such Broker/Dealers will be licensed by the State of California as a broker/dealer as defined in Section 25004 of the California Corporations Code and the list of approved firms shall be provided to the City on an annual basis or upon request. The

investment advisory firms shall perform due diligence review on all of the brokers included on their list, and ensure all purchases are allowable by this investment policy.

In the event that an external investment advisor is not used in the process of recommending a particular transaction in the City's portfolio, authorized broker/dealers shall attest in writing that they have received and reviewed a copy of this Policy.

The City may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in Item 4 of the Authorized Securities and Transactions section of this Investment Policy.

PORTFOLIO MATURITIES AND LIQUIDITY

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities. The City will not invest in securities maturing more than five years from the date of trade settlement.

COMPETITIVE TRANSACTIONS

All investment transactions shall be conducted competitively with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction and their bid or offering prices shall be recorded.

If the City is offered a security for which there is no other readily available competitive offering, then City Treasurer will document quotations for comparable or alternative securities.

SAFEKEEPING AND CUSTODY

The City Treasurer, after review and approval by the Administrative Services Director and City Manager, shall select one or more banks to provide safekeeping and custodial services for the City, in accordance with the provisions of Section 53608 of the California Government Code. A Safekeeping Agreement approved by the City shall be executed with each custodian bank prior to utilizing that bank's safekeeping services.

Custodian banks will be selected on the basis of their ability to provide services for the City's account and the competitive pricing of their safekeeping related services.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. All securities shall be perfected in the name of the City. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities purchased by the City will be delivered by book entry and will be held in third-party safekeeping by a City approved custodian bank or its Depository Trust Company ("DTC") participant account.

All Fed wireable book entry securities owned by the City shall be held in the Federal Reserve System in a customer account for the custodian bank which will name the City as "customer."

All DTC eligible securities shall be held in the custodian bank's DTC participant account and the custodian bank shall provide evidence that the securities are held for the City as "customer."

PORTFOLIO PERFORMANCE

The investment portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. The performance of the City's investments shall be compared to the average yield on the U.S. Treasury security that most closely corresponds to the portfolio's weighted average effective maturity.

REPORTING

Monthly, the City Treasurer shall submit to the Administrative Services Director, the City Manager, and the City Council a report of the investment earnings including weighted average rate of return and performance results of the City's investment portfolio. The report shall include the following information:

1. Investment type, issuer, date of maturity, par value, and dollar amount invested in all securities, investments, and monies held by the City;
2. A description of the funds, investments, and programs;
3. A monthly report of investment transactions;
4. A market value as of the date of the report (or the most recent valuation as to assets not valued monthly) and the source of the valuation;
5. A statement of compliance with the investment policy or an explanation for non-compliance; and
6. A statement of the ability to meet expenditure requirements for six months, and an explanation of why money will not be available if that is the case.

POLICY REVIEW

This Investment Policy shall be adopted annually by the City Council. It shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity, yield, and diversification and its relevance to current law and economic trends. Amendments to this Investment Policy shall be approved by the Council.