CITY OF CARMEL-BY-THE-SEA
POLICY AND PROCEDURE

Subject: Financial Policies for the City of Carmel-by-the-Sea	***Policy/Procedure No:*** C94-01

Effective Date: 13 July 1994	***Authority:*** Resolution No. 94-96

Purpose:
To establish financial policies for the City of Carmel-by-the-Sea

Policy/Procedure:
As fully set forth in the policy document, attached.

Responsible Party:
City Administrator

Department of Origin:
Administrative Services

Revision Dates:
2 February 1997 (Resolution No. 97-10)
1 June 2000 (Resolution No. 2000-72)
15 August 2000 (Resolution No. 2000-100)
19 June 2001 (Resolution No. 2001-69)
2 February 2002 (Resolution No. 2002-17)
13 June 2006 (Resolution No. 2006-35)
5 February 2013 (Resolution No. 2013-8)
5 March 2013 (Resolution No. 2013-10)
1 September 2020 (Resolution No. 2020-055)

Rescinded Date:

The City of Carmel-by-the-Sea has strong financial policies that provide City Council direction to allow staff to provide sound fiscal planning and continued management of fiscal integrity. The financial policies are divided into five categories: Capital Budget Policies, Operating Management, Reserve Policy, Debt Policies, and Investment Policies. The City has financial policies that are adopted by the City Council with review every two years during the budget development process. The financial policies help ensure that the City maintains a healthy financial foundation into the future.

The goal of these policies is to promote:

- An extended financial planning horizon to increase awareness of future potential challenges and opportunities.
- Setting aside reserves for contingencies, replacement of capital equipment, and other similar needs.
- Maintaining the effective buying power of fees and charges and increasing cost recovery where directed to do so.
- Accountability for meeting standards for financial management and efficiency in providing services.
- Planning for the capital needs of the City.
- Maintaining manageable levels of debt while furthering quality bond ratings.
- Communication to residents and customers on how the community goals are being addressed.

CAPITAL BUDGET POLICIES

The City develops an annual five-year plan for capital improvements; it includes project design, development, implementation, and operating and maintenance costs. Each project in the Capital Improvement Plan (CIP) shows the estimated capital and on-going maintenance costs, known and potential funding sources, and a design and development schedule. As used in the CIP, projects include land acquisition, buildings and facilities construction; these projects do not have a cost threshold. A capital outlay (fixed asset) purchase is any single item or piece of equipment that costs more than $10,000 and has an expected useful life exceeding one year. The development of the capital improvement plan is coordinated with the development of the operating budget. The CIP is a planning document; the City Council appropriates funding for capital projects in the annual operating budget. Costs for professional services needed to implement the CIP are to be included in the appropriate year's operating budget.

Annual operating budgets should provide adequate funds for maintenance of the City's buildings and maintenance and replacement of the City's capital equipment. The City will make all capital improvements in accordance with an adopted and funded capital improvement program. Prior to ratification of the capital budget for the forthcoming year by the City Council, the Planning Commission shall review the capital improvement plan and shall advise the City Council as to its recommendations regarding the proposed capital projects in accordance with the Government Code.

Capital (Policy No. C94-01)

Capital expenditures shall be effectively planned and controlled.

Guidelines:

1. The level of capital improvement expenditures, excluding road maintenance program expenditures and lease payments, is established at three and one-half percent (3.5%) of total revenues.
2. Funding for the road maintenance program should improve the pavement condition index.
3. The City shall maintain a Five-Year Capital Improvement Program (CIP), which shall be updated at least annually as part of the budget review process.
4. The City shall annually establish a phasing calendar for capital improvement expenditures.
5. At least ten percent (10%) of the unrestricted funds designated for capital project expenditures shall be set aside for unanticipated expenditures.
6. The City shall conduct periodic reviews of property and facilities to determine the appropriate use and disposition of said property and facilities.
7. The City shall consider the ongoing impact of operations and maintenance expenses before undertaking any capital improvement expenditure.
8. The City shall maintain a capital reserve policy as described in the Reserve Policy.
9. Public participation in the Capital Improvement Program is a priority concern for the City.
10. All projects included in the Capital Improvement Plan shall be consistent with the City's General Plan.
11. Capital projects that are not encumbered or completed during the fiscal year are required to be re-budgeted to the next fiscal year and subsequently approved by the City Council. All re-budgeted capital projects should be so noted in the proposed budget.

OPERATING MANAGEMENT (Policy No. C94-01)

Operating revenues shall exceed operating expenditures.

Guidelines:

1. The annual operating budget shall contain a current surplus (or "revenue buffer") of at least five percent (5%) of projected expenditures.
2. A balanced budget is a budget in which total sources meet or exceed uses.
3. An appropriated City Discretionary Account of at least one-half of one percent (0.5%) of total projected General Fund expenditures shall be maintained.
4. Ongoing expenses shall not be funded with one-time revenues.
5. The City shall establish internal service funds for the repair, operation, and replacement of rolling stock and data processing equipment.
6. The level of capital outlay expenditures is established at three percent (3%) of total revenues.
7. The City shall annually establish a phasing calendar for capital outlay expenditures.
8. The City shall develop a five-year forecast of operating revenue and expenditures.
9. The City shall establish salary adjustments in conjunction with the budget process.
10. The City shall review the relationship between fees/charges and the cost of providing services at least every three years.
11. The City's fees and charges for services shall be adjusted annually, based upon the San Francisco-Oakland Consumer Price Index.
12. The City will seek to comply with suggested criteria of the Government Finance Officers Association in producing a budget document that meets the Distinguished Budget Presentation criteria.

RESERVE POLICY (Policy No. C94-01)

The Reserve Policy is designed to develop standards for setting reserve levels for various, significant City funds. Adequate fund balance and reserve levels are a necessary component of the City's overall financial management strategy and a key factor in external agencies' measurement of the City's financial strength. The City shall maintain reserves at a prudent level, and shall use reserves appropriately.

Guidelines:

1. General Fund and Hostelry Fund reserves shall be maintained at no less than ten percent (10%) of their annual projected revenues.
2. The City shall maintain prudent reserves for identified liabilities
    - A Vehicle Replacement reserve will be maintained sufficient to replace vehicles and heavy equipment at the end of their useful lives with the target being 10% of the total City fleet replacement value.
    - Technology equipment replacement reserves will be maintained sufficient to repair covered equipment and for replacement at the end of its useful life.
    - A litigation reserve will be maintained to cover potential liability for tort claims or other litigation settlements. The target reserve balance is based on all the known claims against the City and those claims that might have occurred, but are not yet reported. The reserve balance shall be appropriated on an annual basis for immediate access as authorized.
3. A general capital reserve fund will be maintained with a targeted balance of 20% of the total five-year capital improvement plan project expenditure estimate. When available the annual General Fund operating surplus will be dedicated to the general capital reserve. In addition, net proceeds from the sale of City owned property will be dedicated to the general capital reserve. Funds in the general capital reserve will be allocated through the budget process for capital projects.
4. Reserves shall be used only for established purposes.
5. Depleted reserves shall be restored as soon as possible.
6. A maximum level for each of the reserve funds shall be established.
7. The City shall maintain reserves required by law, ordinance and/or bond covenants.
8. The City will maintain a pension obligation bond repayment reserve funded from Measure D proceeds in an amount of $70,000 annually contributed to the reserve.

DEBT POLICIES (Policy No. C94-01)

Purpose of Policies

The purpose of the debt management policies is to establish guidelines for the effective governance, management and administration of City debt. Debt management is an integral part of the City's fiscal stability. Decisions regarding the issuance of debt impact both the short and long term availability of resources. As such, these debt management policies are intended to assist in making decisions regarding long-term financial commitments that align with other financial policies and planning; that are affordable and do not cause an undue risk or financial burden to the City and its taxpayers; and help achieve other citywide objectives pertaining to capital projects and improvements to the City's built and "green" infrastructure.

I. Purpose and Use of Debt

A. General Capital Financing Guidelines

1. The City considers the use of debt financing for one-time capital improvements that benefit the residents of Carmel-by-the-Sea when:
    a. Capital improvements cannot be financed from current annual revenues

   b. The term of the financing is no longer than the project’s useful life
   c. Specific revenues are found to be sufficient to service the long-term debt
2. The City will consider the use of debt financing for one-time capital improvement projects and specific nonrecurring equipment purchases or refunding of existing liabilities under the following circumstances:
   a. When the project is included in the City's adopted capital improvement program (CIP) and is in conformance with the City's adopted General Plan.
   b. When the project is not included in the City's adopted CIP, but the project is an emerging critical need whose timing was not anticipated or it is a project mandated by State or Federal requirements.
   c. When the project's useful life, or the projected service life of the equipment, will be equal to or exceed the term of the financing.
   d. When there are designated General Fund revenues sufficient to service the debt, whether from project revenues, other specified and/or reserved resources, or infrastructure cost- sharing revenues.
3. The City will use the following criteria to evaluate pay-as-you-go versus long-term financing in funding capital improvements.
   a. Pay-As-You- Go factors
      i. Current revenues and adequate fund balances are available and project phasing can be accomplished
      ii. Existing debt levels adversely affect the City’s credit rating
      iii. Market conditions are unstable or present difficulties in marketing
   b. Long-term Financing Factors
      i. Revenues available for debt service are deemed sufficient and reliable so that long-term financings can be marketed with investment grade ratings
      ii. The project securing the financing is of the type which will support an investment grade rating
      iii. Market conditions present favorable interest rates and demand for City findings
4. Debt financing (other than tax and revenue anticipation notes) is not considered appropriate for any recurring purpose such as current operating and maintenance expenditures.
5. The City shall continually review outstanding obligations for opportunities to achieve debt service savings through refunding and shall pursue refinancing when economically feasible and advantageous.

B. General Practices for Debt Management

1. The City will not obligate its General Fund to support long-term financings except when marketability can be significantly enhanced.
2. Bond issue proposals are to be accompanied by an analysis defining how the new issue, combined with current debt, impacts the City's debt capacity and conformance with City debt policies. Such analysis shall include identification of the funding source, an assessment of the ability to repay the obligation, the impact on the current budget, commitments to future budgets, maintenance and operational impact of the facility or asset and the impact on the City's credit rating, if any.
3. City Council must review such analysis, including existing debt level, ability to pay debt service, impact on City services, and make a finding that use of debt is appropriate.
4. Debt service costs (COP, Lease Purchase Agreements and other contractual debt that are backed by General Fund Operating Revenues) are not to exceed 25% of the City's General Fund operating revenues.
5. Bonds will be sold on a competitive basis unless it is in the best interest of the City to conduct a negotiated sale. Competitive sales will be the preferred method. Negotiated sales may occur when selling bonds for a defeasance of existing debt, for current or advanced refunding of debt, or for other appropriate reasons.
6. Costs incurred by the City, such as bond counsel and financial advisor fees, printing, underwriter's discount, and project design and construction costs, will be charged to the bond issue to the extent allowable by law.

7. In general, debt should be structured with fixed interest rates. Variable rate bonds may be considered if the variable rate would be cost effective for the City. Debt will be structured with the goal of distributing the payments for the asset over its useful life so that benefits more closely match costs for both current and future residents. Borrowings by the City should be of a duration that does not exceed the useful life of the improvement that it finances. The standard term of long-term borrowing is typically 15-30 years.
8. The City will monitor all forms of debt annually when the City Budget is prepared and will report any concerns and remedies to City Council.
9. The City will strive to maintain good relations with credit rating agencies, investors of the City's long-term financial obligations and those in the financial community that participate in the City's financings and demonstrate City officials are following a prescribed financial plan. The City also will strive to maintain and, if possible, improve its current AA- bond rating in order to minimize borrowing costs and preserve access to credit. The City will follow a policy of full disclosure by communicating with bond rating agencies to inform them of the City's financial condition.
10. The City will follow all State and Federal regulations and requirements related to bonds and debt financing instruments regarding bond provisions, issuance, taxation and disclosure.
11. The City will monitor compliance with bond covenants and adhere to federal arbitrage and disclosure regulations.
12. The City recognizes that it is of the utmost importance that elected and appointed City officials, and all others associated with the issuance of City debt, not only avoid the reality of a conflict of interest, but the appearance thereof as well. City officials must conduct themselves in a fashion consistent with the best interests of the City and taxpayers.

C. Debt Limit

The City will keep outstanding debt within the limits prescribed by State of California statutes and at levels consistent with credit objectives. California Government Code provides that “a city may incur indebtedness for any municipal improvement requiring an expenditure greater than the amount allowed for it by the annual tax levy" (43602). A "city shall not incur an indebtedness for public improvements which exceeds in the aggregate 15 percent of the assessed value of all real and personal property of the city. Within the meaning of this section "indebtedness" means bonded indebtedness of the city payable from the proceeds of taxes levied upon taxable property in the city" (43605). The limit is relative to the principal amount of bonds sold and delivered (43606). The City of Carmel-by-the-Sea, Policy No C94-01 establishes "the City's debt shall not exceed predetermined levels." The guideline in that policy is that "the City's debt service level shall not exceed eight and one-fourth percent (8.25%) of total expenditures.

II. Types of Debt

The City may issue all such types of debt as are permitted by the State of California Constitution and applicable State statutes. Due diligence review is required in evaluating these financing structures including examining the potential risks and benefits and impacts to the City’s creditworthiness, debt affordability and debt capacity. The issuance of debt may include, but is not limited to, the following:

1. General obligation (GO) bonds. GO bonds are secured by a new tax revenue, which is the levy of an ad valorem property tax to pay debt service, Issuance of a GO Bond requires approval by ⅔ of the majority voting on the bond proposition.
2. Lease obligations including lease revenue bonds (LRB) and certificates of participation (COP). Lease financings are obligations secured by a lease-back arrangement between the City and a counterparty such as the City of Carmel-by-the-Sea Public Improvement Authority, a joint powers authority. The lease payments are obligations to the City’s General Fund, although other revenues may be actually used to make the payments. The lease payments are then used to pay debt service on the LRB or COP.
3. Revenue bonds. Obligations are paid from specific revenue generated by an enterprise fund or, on occasion, a non-enterprise special fund.

4. Assessment and special tax bonds. The City may form, with approval of a majority of property owners, assessment districts that provide specific benefits to the property and the owners within a defined assessment district. The City may also form, with approval of a majority of property owners, Mello-Roos community facilities districts ("CFD") to fund public services and improvements within the CFD.
5. Alternative debt structures. These include installment sale agreements, financing agreements and lease-purchase agreements, and lines of credit.
6. Conduit financing. Issuance of tax-exempt securities by a government agency to finance a project of a third party.
7. Inter-fund borrowing. This involves borrowing from funds with temporary surplus cash to meet short term needs in lieu of issuing long-term debt. Funds from which money is borrowed shall be paid back with interest occurring monthly based upon the average earning rates of the City's investment pool. If the borrowing is for bond anticipation financing, City Council shall adopt a resolution of intent to repay the funds from the tax-exempt bond proceeds as applicable by law.
8. State Revolving Loan Funds. Low interest loans from the State of California from agencies such as the State Water Resources Control Board.
9. Bank Loans. Financing directly through a variable or fixed loan from a bank.
10. Refunding Obligations. Existing debt may be refunded, or refinanced, based on the guidelines listed below.

Refunding Obligations Guidelines

The City shall continually review outstanding obligations for opportunities to achieve debt service savings through refunding and shall pursue refinancing when economically feasible and advantageous. In general, the City will seek to achieve debt service savings which, on a net present value basis, are at least 5% of the principal amount of the debt being refinanced. The net present value determination shall factor in all costs, including issuance, escrow, and foregone interest earnings of any contributed funds on hand.

III. Relationship of Debt to Capital Improvement Program (CIP) and Budget

The City shall integrate its debt issuances with the goals of its capital improvement program and annual operating budget. The City's capital improvement program identifies immediate and long-term capital improvements and projects while the annual budget includes funding for specific capital projects for the upcoming fiscal year. The City's financial policies include guidelines regarding funding to implement the capital improvement plan. The use of debt guidelines include recommendations that the capital projects subject to long-term financing be included within the capital improvement plan when feasible and that debt issuance for capital projects should be incorporated into the capital improvement plan recommended to Council for approval. The City will time the issuance of debt to ensure that funding for projects is available when needed and is in furtherance of the City's public purpose.

IV. Policy Goals Related to Financing Planning Goals and Objectives

Debt management policies are one aspect of the City's overall financial management policies. The other financial policies include capital expenditures, operating budget, fund balance and maintaining of reserves and investments, all of which work in tandem with the issuance and management of debt to ensure the City's financial stability. Financial forecasting and long-term financial planning should include existing debt obligations as well as analyze projected revenue assumptions and expenditure trends as a part of the review of the City's capacity to absorb additional debt in the future.

V. Internal Controls and Disclosure Policies and Procedures

The Disclosure Policies and Procedures listed below are intended to ensure that the City is in compliance with all applicable federal and state securities laws and that appropriate internal controls are in place to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.

A. Disclosure Coordinator

The Finance Manager of the City shall be the disclosure coordinator of the City (the "**Disclosure Coordinator**").

B. Review and Approval of Official Statements

1. The Disclosure Coordinator of the City shall review any Official Statement prepared in connection with any debt issuance by the City in order to ensure there are no misstatements or omissions of material information in any sections that contain descriptions of information prepared by the City.
2. In connection with its review of the Official Statement, the Disclosure Coordinator shall consult with third parties, including outside professionals assisting the City, and all members of City staff, to the extent that the Disclosure Coordinator concludes they should be consulted so that the Official Statement will include all "material" information (as defined for purposes of federal securities law).
3. As part of the review process, the Disclosure Coordinator shall submit all Official Statements to the City Council for approval. The approval of an Official Statement by the City Council shall be docketed as a new business matter and shall not be approved as a consent item. The City Council shall undertake such review as deemed necessary by the City Council, following consultation with the Disclosure Coordinator, to fulfill the City Council's responsibilities under applicable federal and state securities laws. In this regard, the Disclosure Coordinator shall consult with the City's disclosure counsel to the extent the Disclosure Coordinator considers appropriate.

C. Continuing Disclosure Filings

1. As part of the continuing disclosures undertakings that the City has entered into in connection with its debt offerings, the City is required to file annual reports with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") system in accordance with such undertakings that contain certain updated financial and operating information and the City's audited financial statements. In addition, the City is required to file notices of certain events with EMMA.

    a. The Disclosure Coordinator will establish a system, which may involve the retention of one or more consultants, to ensure the City's annual audited financial statements are completed in a timely manner;
    b. that the annual filings required by its counting disclosure undertakings are completed on a timely basis; and
    c. the notices of enumerated events are filed on a timely basis.

D. Public Statements Regarding Financial information

Whenever the City makes statements or releases information related to its finances to the public that are reasonably expected to reach investors and the trading markets, the City is obligated to ensure that such statements and information are complete, true and accurate in all material respects.

E. Training

1. The Disclosure Coordinator shall ensure that the members of the City staff involved in the initial or continuing disclosure process and the City Council are properly trained to understand and perform their responsibilities.
2. The Disclosure Coordinator shall arrange for disclosure training sessions conducted by the City's disclosure counsel. Such training sessions shall include education on these Disclosure Procedures, the City's disclosure obligations under applicable federal and state securities laws and the disclosure responsibilities and potential liabilities of members of the City's staff and members of the City Council. Such training sessions may be conducted using a recorded presentation.

F. Proceeds and Investments

1. When reasonably possible, the proceeds of debt issuance will be held by a third-party trustee and the City will submit written requisitions for release of proceeds only after obtaining the signature of the City Administrator or his or her designee.
2. All investments of bond proceeds shall adhere to the City's Investment Policy.

INVESTMENT POLICIES

Municipal moneys not required for immediate expenditure will be invested. The City will maintain adequate cash availability and maximum yield on invested idle funds while insuring that invested moneys are protected. The Carmel Municipal Code requires the City Administrator to prepare investment policies and guidelines for adoption by the City Council. The adopted investment policy follows.

INVESTMENT POLICY AND GUIDELINES
C89-27

Policy
In accordance with the Municipal Code of the City of Carmel-by-the-Sea and under authority granted by the City Council, the City Treasurer is responsible for investing the unexpended cash in the City Treasury.

The investment of the City of Carmel-by-the-Sea funds is directed to the goals of safety, liquidity and yield, in that order. The authority governing investments for municipal government is set forth in the California Government Code, Sections 53601 through 53659.

The primary objective of the investment policy of the City of Carmel-by-the-Sea is SAFETY OF PRINCIPAL. Investments shall be placed in those securities as outlined by type and maturity sector in this document. Effective cash flow management and resulting cash investment practices are recognized as essential to good fiscal management and control. The City's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and local law. Portfolio management requires continual analysis and as a result the balance between the various investments and maturities may change in order to give the City of Carmel-by-the-Sea the optimum combination of necessary liquidity and optimal yield based on cash flow projections.

Scope
The investment policy applies to all financial assets of the City of Carmel-by-the-Sea as accounted for in the Annual Financial Report. Policy statements outlined in this document focus on the City of Carmel-by-the-Sea's pooled funds, but will also apply to all funds under the City Treasurer's control unless specifically exempted by statute or ordinance.

Prudence
The standard to be used by investment officials shall be that of a "prudent person" and shall be applied in the context of managing all aspects of the overall portfolio. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, direction 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.

It is the City's full intent, at the time of purchase, to hold all investments until maturity to insure the return of all invested principal dollars.

Safety
Safety of principal is the foremost objective of the City. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker-dealer default, or from erosion of the market value.

Liquidity
Historical cash flow trends are compared to current cash flow requirements on an ongoing basis in an effort to ensure that the City's investment portfolio will remain sufficiently liquid to enable the City to meet all reasonably anticipated operating requirements.

Yield
The investment portfolio should be designed to attain a market average rate of return through budgetary and economic cycles, consistent with the risk limitations, prudent investment principles and cash flow characteristics identified within the financial statements.

Performance Evaluation
Investment performance is continually monitored and evaluated by the City Treasurer. Investment performance statistics and activity reports are generated on a monthly basis for presentation to the City Administrator and City Council.

Delegation of Authority
For short-term investments, the Administrative Services Director has authority to make transfers to and from the City's Local Agency Investment Funds (LAIF) account in order to maximize interest earned. The transfers are made from the City's general checking account to the LAIF account, with a minimum balance maintained in the general checking account to meet daily cash requirements.

The City Treasurer is responsible for investment of all unexpended City funds as per California Government Code section 41000 et seq. The City Treasurer makes long-term investments after review and approval by the Administrative Services Director and the City Administrator.

Ethics and Conflict of Interest
Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with the proper execution of the investment program, or impairs their ability to make impartial investment decisions. Additionally, the City Treasurer and the members of the investment committee are required to annually file applicable financial disclosures as required by the Fair Political Practices Commission (FPPC).

Safekeeping of Securities
To protect against fraud, embezzlement, or losses caused by a collapse of an individual securities dealer, all securities owned by the City shall be held in safekeeping by a third party bank trust department, acting as an agent of the city under the terms of a custody agreement or PSA agreement (repurchase agreement collateral). All trades executed by a dealer will settle Delivery vs. Payment (DVP) through the City's safekeeping agent. Securities held in custody for the City shall be independently audited on an annual basis to verify investment holdings.

All exceptions to this safekeeping policy must be approved by the City Treasurer in written form and included in quarterly reporting to the City Council.

Internal Control
Separation of functions between the City Treasurer's Office and the Administrative Services Department would be an ideal situation. Time and necessity, however, dictate a different approach. Due to the lack of personnel dedicated to the investment function alone, a proper balance must be maintained between Treasury activities and Administrative Services Department functions. The City Treasurer will make the appropriate arrangements to buy and sell securities, which are deemed permissible by the Laws of the State of California as time permits. The Administrative Services Director and/or City Administrator will have the power as granted under the section titled Delegation of Authority in the absence of the City Treasurer. The Administrative Services Director will have the authority to enter into agreements on securities so long as written policies set by the City Treasurer and State Legislature are followed.

The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by the Administrative Services Director on a monthly basis. An independent analysis by an external auditor shall be conducted annually to review internal control, account activity, and compliance with government policies and procedures.

Reporting
The City Treasurer shall review and render monthly reports to the City Administrator and the City Council which shall include the face amount of the cash investment, the classification of the investment, the name of the institution or entity, the rate of interest, the maturity date, and the current market value and accrued interest to date due for all securities.

Qualified Broker/Dealers
The City shall transact business only with banks and broker/dealers that are properly licensed and in good standing. The Administrative Services Director and the City Treasurer shall investigate dealers who wish to do business with the City to determine if they are adequately capitalized and if they market securities appropriate to the City's needs.

The City Treasurer shall annually send a copy of the current investment policy to all broker/dealers approved to do business with the City. Confirmation of receipt of the City's policy by the broker/dealer shall be considered evidence that the broker/dealer understands the City's investment policies and intends to sell the City only appropriate investments authorized by this investment policy.

Collateral Requirements
Collateral is required for investments in certificates of deposit. In order to reduce market risk, the collateral level will be at least 110% of market value of principal and accrued interest.

In order to conform with the provisions of the Federal Bankruptcy Code which provides for liquidation of securities held as collateral, the only securities acceptable as collateral shall be certificates of deposit, commercial paper, eligible banker's acceptances, medium term notes or securities that are the direct obligations of, or are fully guaranteed as to principal and interest by, the United States or any agency of the United States.

Authorized Investments
Investment of City funds is governed by the California Government Code Sections 53600 et seq. Within the context of the limitations, the following investments are authorized as further limited herein:

1) United States Treasury Bills, Bonds, and Notes or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio which can be invested in this category, although a five-year maturity limitation is applicable.

2) United States agency bonds or obligations issued by the Government National Mortgage Association (GNMA), the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal

3) National Mortgage Association (FNMA), the Student Loan Marketing Association (SLMA), and the Federal Home Loan Mortgage Company (FHLMC). There is no percentage limitation of the portfolio which can be invested in this category, although a five-year maturity limitation is applicable.

4) Local Agency Investment Fund (LAIF) which is a State of California managed investment pool may be used up to the maximum permitted by the California State Law. LAIF is a demand account so no maturity limitation is required.

Investments detailed in items 4 through 10 are further restricted to percentage of the cost value of the portfolio in any one-issuer name to a maximum percentage of 15%. The total value invested in any one issuer shall not exceed 5% of the issuer's net worth. Again, a five-year maximum maturity is applicable unless further restricted by this policy.

5) Bills of exchange or time drafts drawn on and accepted by commercial banks, otherwise known as bankers acceptances. Bankers acceptances purchased may not exceed 270 days to maturity or 40% of the cost value of the portfolio.

6) Commercial paper rated P1 by Moody's Investor Services, A1 by Standard and Poor's or F1 by Fitch, and issued by domestic corporations having assets in excess of $500,000,000.00 and having an AA or better rating on its long term debentures as provided by Moody's or Standard and Poor's. Purchases of eligible commercial paper may not exceed 180 days to maturity nor represent more than 10% of the outstanding paper of the issuing corporation. Purchases of commercial paper may not exceed 15% of the cost value of the portfolio.

7) Negotiable certificates of deposit issued by nationally or state chartered bank or state or federal savings institutions. Negotiable certificates of deposit shall be rated in a category of “A” or its equivalent or better by two Nationally Recognized Statistical Rating Organizations. Purchases of negotiable certificates of deposit may not exceed 30% of the total portfolio. A maturity limitation of five years is applicable.

8) Repurchase agreements, which specify terms and conditions, may be transacted with banks and broker dealers. The maturity of repurchase agreements shall not exceed 90 days. The market value of the securities used as collateral for the repurchase agreements shall be monitored by the investment staff and shall not be allowed to fall below 102% of the value of the repurchase agreement. A Public Securities Agreement Master Repurchase Agreement is required between the City of Carmel-by-the-Sea and the broker dealer or financial institution for all repurchase agreements transacted.

9) Reverse repurchase agreements which specify terms and conditions may be transacted with broker dealers and financial institutions but cannot exceed 20% of the portfolio value on the date entered into. The City may enter into a reverse repurchase agreement only to fund short term liquidity needs. The term of reverse repurchase agreements may not exceed 90 days.

10) Time deposits, non-negotiable and collateralized in accordance with the California Government Code, may be purchased through banks or savings and loan associations. Since time deposits are not liquid, no more that 25% of the investment portfolio may be invested in this type of investment.

11) Medium Term Corporate Notes, with a maximum maturity of five years may be purchased. Securities eligible for investment shall be rated A or higher by Moody's or Standard and Poor's rating services. Purchase of medium term notes may not exceed 30% of the market value of the portfolio and not more than 15% of the market value may be invested in notes issued by one corporation. Commercial paper holdings should also be included when calculating the 15% limitation.

Ineligible investments are those that are not described herein, including, but not limited to: common stocks and long term (over five years maturity) notes and bonds are prohibited from use in this portfolio unless specifically allowed both by state law and City Council approval. It is noted that special circumstances may arise where these methods of investment may become necessary. When this becomes necessary, the City Council will be asked to take the appropriate action to ratify the means of investment necessary, provided that it is allowable by California Code.

Legislative Changes

Any State of California legislative actions that further restrict allowable maturities, investment type, or percentage allocations will supersede any of the material presented herein. In this case, the applicable law will become part and parcel of this investment policy.

Interest Earnings

All moneys earned and collected from investments authorized in this policy shall be allocated monthly to the General Fund and various special funds of the City which legally require interest proration or when City Council action dictates such proration. This distribution will be based on the cash balance in the fund as a percentage of the entire pooled portfolio.

Policy Review

The City of Carmel-by-the-Sea's investment policy shall be approved by resolution of the City Council. This investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and yield, and its relevance to current law and financial and economic trends. Any amendments to the policy, other than State and Federal laws, which automatically supersede the relevant sections, shall be forwarded to the City Council for approval by resolution.