



## **Agenda CITY OF MANHATTAN BEACH**

### **Meeting of the Finance Subcommittee**

**July 22, 2020 – 1:00PM**

**\*Zoom Meeting via Internet/Phone Conference**

**1. Public Comments**

**2. Approval of Minutes from July 6, 2020 Finance Subcommittee Meeting**

*Recommended Action: Approve*

**3. (Continued from July 6, 2020 Finance Subcommittee Meeting) – Unfunded Actuarial Liability (UAL)  
- Pension Obligation Bond (POB) Presented by: Mark Young – KNN PUBLIC FINANCE**

**a. Unfunded Pension Liability Policy (Draft) -**

*Recommended Action: Provide Direction and Approve*

**4. Annual Review of Investment Policy**

*Recommended Action: Approve*

**5. Consideration of Bad Debt Write-Off's for Referral to Collections**

*Recommended Action: Receive and File*

**Adjourn**

Copies of staff reports or other written documentation relating to agenda items are on file in the office of the Finance Director and on the City website.

**\* Join Zoom Meeting**

<https://comb.zoom.us/j/98170292293?pwd=Qkh0enk1a29zZ2RMTlJHVjI'ITOU5qZz09>

Meeting ID: 981 7029 2293

Password: 587971

One tap mobile

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Dial by your location

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Meeting ID: 981 7029 2293

## **Finance Subcommittee Meeting Draft Action Minutes**

Meeting Date: July 6, 2020  
Recording Secretary: Helga Foushanes

In Attendance: Tim Lilligren, Treasurer  
Richard Montgomery, Mayor  
Steve Napolitano, Council Member  
Bruce Moe, City Manager  
Steve S. Charelian, Finance Director  
Henry Mitzner, Controller  
Libby Bretthauer, Financial Analyst  
Cynthia Mickschl, Revenue Services Manager  
Julie Bondarchuk, Senior Accountant  
George Gabriel, Senior Management Analyst

Called to Order: 1:10 p.m. by Tim Lilligren, Treasurer

### **Agenda Item #1 – Public Comments**

None.

### **Agenda Item #2 - Approval of Minutes from December 5, 2019 Finance Subcommittee Meeting**

The Finance Subcommittee approved the minutes of December 5, 2019.

### **Agenda Item #3 – Unfunded Actuarial Liability (UAL) – Pension Obligation Bond (POB)**

Mark Young from KNN Public Finance made the presentation; the item will be continued at the July 22, 2020 meeting.

### **Agenda Item #4 – Month-End Financials for May 2020**

The Finance Subcommittee received and filed the report.

### **Agenda Item #5 - Investment Portfolio for May 2020**

The Finance Subcommittee received and filed the report.

### **Agenda Item #6 – Fiscal Year 2019/2020 Monthly Schedule of Transient Occupancy Tax and Lease Payments and Miscellaneous Accounts Receivables**

The Finance Subcommittee received and filed the report.

### **Agenda Item #7 – Consideration of Bad Debt Write-Off's for Referral to Collections**

The Finance Subcommittee received and filed the report.

### **Agenda Item #8 – Adjournment**

The meeting adjourned at 2:10 p.m.



Agenda Item #: \_\_\_\_\_

# Staff Report

## City of Manhattan Beach

**TO:** Members of the Finance Subcommittee

**FROM:** Steve S. Charelian, Finance Director

**DATE:** July 6, 2020

**SUBJECT:** CalPERS Pension Costs and Pension Obligation Bond Options

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**RECOMMENDATION:**

Staff recommends that the Finance Subcommittee receive and file this report.

**FISCAL IMPLICATION:**

Fiscal implications of the City's rising CalPERS pension costs and Pension Obligation Bond (POB) options will be discussed during the presentation.

**DISCUSSION:**

As a follow up to the September 26, 2019, Finance Subcommittee Report on the funding of CalPERS Pension Contributions, staff requested KNN Public Finance to prepare a presentation on the City's options to mitigate pension costs by issuing Pension Obligation Bonds.

If the City pursues the use of Pension Obligation Bonds, the adoption of a Pension Policy is strongly recommended to memorialize how the City intends to use the budgetary savings that will result from the issuance of the bonds.

**Attachments:**

1. KNN Public Finance Pension Obligation Bond Presentation
2. City of Manhattan Beach UAL Policy (Draft for Discussion)



# City of Manhattan Beach

Presentation to Finance Subcommittee  
Pension Obligation Bonds

July 6, 2020



5901 West Century Blvd., Suite 750, Los Angeles, CA 90045  
phone 310-348-2901 fax 510-208-8282

# Pension Cost Background



# Three Different Pension Cost Areas

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- Employer Normal Cost - \$4.37mm for FY 2019-20
  - Employer pension costs are determined by CalPERS and paid by the City (including any cost sharing agreements)
    - Fire employer costs are 18.748% (Classic) or 13.786% (PEPRA) of payroll
    - Police employer costs are 20.654% (Classic) or 13.786% (PEPRA) of payroll
    - Misc. employer costs are 9.047% of payroll
  
- Employee Normal Cost - \$2.87mm for FY 2019-20
  - Employees also contribute toward pension related costs (including any cost sharing agreements)
    - Fire employees contribute 12% (Classic) or 12.75% (PEPRA) of payroll costs
    - Police employees contribute 12% (Classic) or 12.75% (PEPRA) of payroll costs
    - Misc. employees contribute 7% of payroll costs
  
- Unfunded Accrued Liability (UAL) Cost - \$5.0 mm for FY 2019-20
  - UAL costs are assessed to make up for valuation lost and costs incurred from prior years
    - Lower than projected investment returns
    - Changes in actuarial assumptions

# UAL Structure Similar To A Mortgage

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- Accelerated UAL payments mandated by CalPERS have been the cause of our current pension crisis
- Of note, UAL payments will end when the overall accrued debt load has been paid off
  - In some ways, UAL payment is similar to a mortgage payment
- The City's UAL "mortgage" includes the following key terms:
  - An interest rate of 7% to service our UAL debt load
  - 26 years left on the term of our current "mortgage"
    - Final payment scheduled for June 30, 2046
  - Annual payments will increase through FY 2031-32

# Manhattan Beach Unfunded Accrued Liability

- Per the CalPERS Actuarial Valuation reports as of June 30, 2018, the City's funded ratios were:

- 76.1% for Miscellaneous
- 92.1% for PEPR Fire
- 92.1% for PEPR Police
- 72.8% for Fire
- 71.5% for Police

- Projected unfunded accrued liabilities for fiscal year 2021 are:

- \$19,239,329 for Fire
- \$41,425,963 for Police
- \$27,985,675 for Miscellaneous
- \$88,650,967 Total**

Date	Jul-19		Jul-19		Jul-19			
Valuation as of	6/30/2018		6/30/2018		6/30/2018			
Plan	Subtotal FIRE		Subtotal Police		Miscellaneous Plan		TOTAL UAL	
Required Contribution In	Balance	Payment	Balance	Payment	Balance	Payment	Balance	Payment
6/30/2021	19,239,329	1,221,821	41,425,963	2,676,297	27,985,675	1,833,630	88,650,967	5,731,748
6/30/2022	19,322,221	1,418,654	41,557,397	3,069,849	28,047,950	2,118,747	88,927,568	6,607,250
6/30/2023	19,207,310	1,580,795	41,290,939	3,398,706	27,819,657	2,356,741	88,317,906	7,336,242
6/30/2024	18,916,635	1,679,200	40,665,656	3,605,618	27,329,202	2,513,552	86,911,493	7,798,370
6/30/2025	18,503,821	1,777,996	39,782,572	3,812,950	26,642,208	2,679,360	84,928,601	8,270,306
6/30/2026	17,959,915	1,824,959	38,623,206	3,917,807	25,735,610	2,753,040	82,318,731	8,495,806
6/30/2027	17,329,356	1,875,146	37,274,218	4,025,547	24,689,336	2,828,750	79,292,910	8,729,443
6/30/2028	16,602,745	1,926,712	35,719,356	4,136,249	23,491,509	2,906,540	75,813,610	8,969,501
6/30/2029	15,771,931	1,979,697	33,941,142	4,249,996	22,129,368	2,986,471	71,842,441	9,216,164
6/30/2030	14,828,152	2,034,138	31,920,792	4,366,871	20,589,193	3,068,597	67,338,137	9,469,606
6/30/2031	13,761,993	2,090,077	29,638,121	4,486,960	18,856,255	3,152,986	62,256,369	9,730,023
6/30/2032	12,563,340	2,147,554	27,071,442	4,610,351	16,914,718	3,020,555	56,549,500	9,778,460
6/30/2033	11,221,326	2,119,184	24,197,459	4,565,235	14,974,262	2,977,552	50,393,047	9,661,971
6/30/2034	9,814,718	2,087,629	21,168,965	4,514,151	12,942,455	2,718,132	43,926,138	9,319,912
6/30/2035	8,342,289	2,020,272	17,981,319	4,392,710	11,036,769	2,606,853	37,360,377	9,019,835
6/30/2036	6,836,464	1,904,589	14,696,156	4,175,161	9,112,792	2,415,470	30,645,412	8,495,220
6/30/2037	5,344,894	1,701,672	11,406,066	3,779,490	7,252,105	2,083,344	24,003,065	7,564,506
6/30/2038	3,958,813	979,397	8,294,955	2,052,943	5,604,723	1,875,501	17,858,491	4,907,841
6/30/2039	3,222,834	839,686	6,752,022	1,770,854	4,057,019	1,654,653	14,031,875	4,265,193
6/30/2040	2,579,855	728,731	5,392,878	1,548,206	2,629,425	1,122,027	10,602,158	3,398,964
6/30/2041	2,006,640	660,333	4,168,903	1,410,400	1,652,853	1,009,935	7,828,396	3,080,668
6/30/2042	1,464,051	521,188	3,001,797	1,113,305	723,868	537,816	5,189,716	2,172,309
6/30/2043	1,027,413	498,900	2,060,311	1,036,550	218,219	225,727	3,305,943	1,761,177
6/30/2044	583,266	396,160	1,132,317	805,680			1,715,583	1,201,840
6/30/2045	214,304	203,438	378,178	391,191			592,482	594,629
6/30/2046	18,867	19,516					18,867	19,516
<b>TOTAL</b>	<b>36,237,444</b>		<b>77,913,077</b>		<b>51,445,979</b>		<b>165,596,500</b>	

Source: CalPERS Actuarial Valuation - June 30, 2018





# CalPERS Cost Increases Enacted

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- In response to deteriorating financial conditions, CalPERS has enacted a series of pension cost increases
  - March 16, 2012 – Change in Discount Rate from 7.75% to 7.50%
    - Designed to more accurately reflect investment return earnings
    - Impacted employer rates beginning in FY 2013-14
  - April 17, 2013 – Change in Amortization & Rate Smoothing Policy
    - Designed to pay down unfunded liabilities faster
    - Impacted employer rates beginning in FY 2015-16
  - February 18, 2014 – Change in Actuarial Assumptions & Asset Allocations
    - Designed to account for demographic and mortality adjustments
    - Impacted employer rates beginning in FY 2016-17

# Additional Increases Enacted In 2016

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- On December 21, 2016, the CalPERS Board voted to enact two substantial new changes
  - Lower the discount rate from 7.5% to 7.0%
  - Enact an accelerated payback schedule for all unfunded accrued liabilities (UAL)
- The net effect of the two changes includes the following:
  - Discount Rate Reduction
    - Designed to more accurately reflect investment return earnings
    - Impacted employer rates beginning in FY 2018-19
  - UAL Payment Acceleration
    - Designed to accelerate payments to fully fund existing unfunded liabilities over a 20-30 year period

# Pension Obligation Bonds



# Pension Obligation Bonds

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- A Pension Obligation Bond (“POB”) is a taxable debt issuance used to extinguish some or all of a public agency’s unfunded accrued liability (“UAL”).
- Proceeds would be deposited with the City’s pension system, CalPERS, and invested along with other pension system assets, presumably in a mix of equities and corporate fixed income securities.
  - No “side-fund” specific to the City
- POBs are issued only when the all-in interest rate of the bond issue is significantly below the actuarial rate of interest factored into the calculation of the UAL.
- Debt service payments to bondholders would replace the portion of the employer contribution rate that was allocable to the payment of the extinguished UAL.

# Why Is Refinancing Cheaper?

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- One of the primary cost savings driver when assessing the POB option is the current municipal bond market
  - We currently live in a low-interest rate world, with certain governmental entities (Germany, Japan, and the EU) offering negative savings rates
  - These global market conditions have created a scenario where municipal borrowing rates are currently near the lowest levels ever recorded
- For the proposed POB, preliminary market rates indicate the City could refinance its UAL debt at a “true interest cost” of approximately 3.3%
- By comparison, CalPERS is currently assessing an interest rate of 7% on the City’s UAL debt

# Reasons Why Refinancing Could Be A Bad Idea

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- Issuing a POB now does nothing to address future possible unfunded actuarial liabilities growth
  - Returning our UAL to zero now does nothing to keep it at zero in the future
- CalPERS could over-perform from an investment perspective, and we wouldn't have had to issue such a large POB
  - If Cal PERS over-performs and beats 7% investment returns (6.7% return earned in FY 2018/19), then our UAL amount will decrease
- Unknown possible State legislative/ judicial changes in the future
  - The State and/ or the Courts could make pension rule changes to reduce our UAL amounts

# Reasons Why Refinancing Makes Sense

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- Refinancing removes an unknown cost variable and replaces UAL cost increases with a stable fixed payment amount
  - i.e. variable rate to fixed rate
- Interest rates are at historic lows
- More than likely, CalPERS will be able to earn an investment return of at least 3.3% (our estimated cost of the POB)
- Issuing a POB to refinance the UAL does not preclude the City from taking part in any future State/court decisions, if any, related to pension program changes
  - Near-term pension program fixes are unlikely
- Even if the pension fund is overfunded, those funds stay in the City's CalPERS account and can be used to cover future UAL shortfalls

# Other Pension Obligation Bond Considerations

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- **Overfunding:** If the City’s POBs are sized to eliminate the entire UAL, above market returns could create an actuarial “surplus” in the retirement system.
  - Possibly result in political pressure to increase benefits.
  - If earnings above the actuarial rate in any given year are deposited into a supplemental benefit reserve, this can undermine the ability to achieve budgetary savings over the long-run with a POB.
  
- Consider issuing less than 100% of the current estimate of the UAL in order to manage the risks of market timing and the pressures from a potentially over-funded system.
  
- GFOA Advisory on Pension Obligation Bonds discourages use of this instrument.
  
- Consider in the context of long-term capital planning: issue a tax-exempt infrastructure financing in-lieu of taxable POB.
  - Freed up cash can be used to prepay a portion of the UAL.
  - Fungibility of cash creates a “tax-exempt” POB financing.



# POBs are Increasing In the Current Market

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	<b>Sale Dates</b>	<b>CA POB Issuers</b>	<b>Par Amount (\$MM)</b>
1	2/5/2020	City of Pasadena	\$131.805
2	4/22/2020	County of Riverside	\$719.995
3	4/30/2020	City of Larkspur	\$18.295
4	5/13/2020	City of Ontario	\$236.585
5	5/27/2020	City of Montebello	\$153.425
6	6/2/2020	City of Inglewood	\$101.620
7	6/4/2020	City of Riverside	\$432.165
8	6/9/2020	City of El Monte	\$118.725
9	6/10/2020	City of Carson	\$108.020
10	6/11/2020	North County Fire Protection District	\$20.305

# Illustrative Pension Obligation Bonds – 80%

- 80% UALs and level debt service

80%  
Fire UAL  
15,391,463

80%  
Police UAL  
33,140,770

80%  
Misc. UAL  
22,388,540

80%  
Total UAL  
70,920,774

3.284%

3.284%

3.284%

3.284%

Required Contribution In	3.284%				3.284%				3.284%				3.284%			
	Payment	POB Debt Service	Savings	PV Savings	Payment	POB Debt Service	Savings	PV Savings	Payment	POB Debt Service	Savings	PV Savings	Payment	POB Debt Service	Savings	PV Savings
6/30/2021	977,457	886,341	91,116	88,218	2,141,038	1,951,139	189,899	183,860	1,466,904	1,381,577	85,328	82,614	4,585,398	4,219,057	366,342	354,692
6/30/2022	1,134,923	888,578	246,345	230,927	2,455,879	1,956,984	498,895	467,670	1,694,998	1,383,419	311,579	292,077	5,285,800	4,228,981	1,056,819	990,674
6/30/2023	1,264,636	887,097	377,540	342,655	2,718,965	1,957,159	761,806	691,416	1,885,393	1,382,170	503,223	456,726	5,868,994	4,226,425	1,642,569	1,490,798
6/30/2024	1,343,360	890,013	453,348	398,374	2,884,494	1,955,898	928,597	815,995	2,010,842	1,384,853	625,989	550,081	6,238,696	4,230,763	2,007,933	1,764,450
6/30/2025	1,422,397	887,228	535,169	455,320	3,050,360	1,953,165	1,097,195	933,488	2,143,488	1,386,359	757,129	644,162	6,616,245	4,226,752	2,389,493	2,032,970
6/30/2026	1,459,967	888,674	571,294	470,598	3,134,246	1,953,613	1,180,633	972,534	2,202,432	1,386,413	816,019	672,188	6,796,645	4,228,700	2,567,945	2,115,319
6/30/2027	1,500,117	889,281	610,836	487,169	3,220,438	1,957,201	1,263,237	1,007,488	2,263,000	1,385,051	877,949	700,204	6,983,554	4,231,533	2,752,022	2,194,861
6/30/2028	1,541,370	888,973	652,397	503,770	3,308,999	1,953,657	1,355,343	1,046,573	2,325,232	1,382,149	943,084	728,233	7,175,601	4,224,778	2,950,823	2,278,575
6/30/2029	1,583,758	887,624	696,134	520,449	3,399,997	1,952,800	1,447,197	1,081,965	2,389,177	1,382,493	1,006,684	752,625	7,372,931	4,222,916	3,150,015	2,355,038
6/30/2030	1,627,310	890,546	736,764	533,309	3,493,497	1,955,228	1,538,269	1,113,481	2,454,878	1,386,509	1,068,369	773,342	7,575,685	4,232,282	3,343,403	2,420,132
6/30/2031	1,672,062	887,592	784,470	549,783	3,589,568	1,955,764	1,633,805	1,145,026	2,522,389	1,384,030	1,138,359	797,801	7,784,018	4,227,385	3,556,633	2,492,611
6/30/2032	1,718,043	889,124	828,919	562,461	3,688,281	1,954,943	1,733,338	1,176,153	2,416,444	1,385,590	1,030,854	699,484	7,822,768	4,229,657	3,593,112	2,438,097
6/30/2033	1,695,347	889,733	805,615	529,265	3,652,188	1,952,125	1,700,064	1,116,890	2,382,042	1,385,573	996,469	654,650	7,729,577	4,227,430	3,502,147	2,300,805
6/30/2034	1,670,103	889,388	780,716	496,596	3,611,321	1,952,250	1,659,071	1,055,299	2,174,506	1,383,929	790,577	502,869	7,455,930	4,225,566	3,230,364	2,054,764
6/30/2035	1,616,218	888,059	728,159	448,437	3,514,168	1,955,113	1,559,055	960,145	2,085,482	1,385,607	699,876	431,019	7,215,868	4,228,779	2,987,090	1,839,691
6/30/2036	1,523,671	891,007	632,664	377,237	3,340,129	1,956,158	1,383,971	825,216	1,932,376	1,385,913	546,464	325,838	6,796,176	4,233,078	2,563,099	1,528,200
6/30/2037	1,361,338	889,167	472,171	272,587	3,023,592	1,956,472	1,067,120	616,054	1,666,675	1,383,057	283,619	163,735	6,051,605	4,228,696	1,822,909	1,052,375
6/30/2038	783,518	891,599	-108,081	-60,412	1,642,354	1,954,966	-312,612	-174,733	1,500,401	1,383,927	116,474	65,103	3,926,273	4,230,492	-304,219	-170,042
6/30/2039	671,749	888,121	-216,372	-117,095	1,416,683	1,956,640	-539,957	-292,210	1,323,722	1,383,341	-59,618	-32,264	3,412,154	4,228,102	-815,947	-441,568
6/30/2040	582,985	888,915	-305,930	-160,296	1,238,565	1,956,312	-717,747	-376,073	897,622	1,386,299	-488,677	-256,049	2,719,171	4,231,526	-1,512,354	-792,418
6/30/2041	528,266	888,799	-360,533	-182,899	1,128,320	1,953,982	-825,662	-418,859	807,948	1,382,619	-574,671	-291,531	2,464,534	4,225,400	-1,760,865	-893,288
6/30/2042	416,950	887,416	-470,465	-231,078	890,644	1,953,835	-1,063,191	-522,206	430,253	1,386,863	-956,610	-469,857	1,737,847	4,228,113	-2,490,266	-1,223,141
6/30/2043	399,120	890,110	-490,990	-233,490	829,240	1,956,474	-1,127,234	-536,056	180,582	1,384,262	-1,203,680	-572,409	1,408,942	4,230,845	-2,821,903	-1,341,955
6/30/2044	316,928	891,697	-574,769	-264,639	644,544	1,956,715	-1,312,171	-604,159	0	0	0	0	961,472	2,848,411	-1,886,939	-868,798
6/30/2045	162,750	887,177	-724,426	-322,939	312,953	1,954,557	-1,641,604	-731,803	0	0	0	0	475,703	2,841,733	-2,366,030	-1,054,741
6/30/2046	15,613	891,734	-876,121	-378,142	0	0	0	0	0	0	0	0	15,613	891,734	-876,121	-378,142
<b>TOTAL</b>	<b>28,989,955</b>	<b>23,113,988</b>	<b>5,875,967</b>	<b>5,316,165</b>	<b>62,330,462</b>	<b>48,873,145</b>	<b>13,457,317</b>	<b>11,553,154</b>	<b>41,156,783</b>	<b>31,841,995</b>	<b>9,314,788</b>	<b>7,670,640</b>	<b>132,477,200</b>	<b>103,829,127</b>	<b>28,648,073</b>	<b>24,539,960</b>

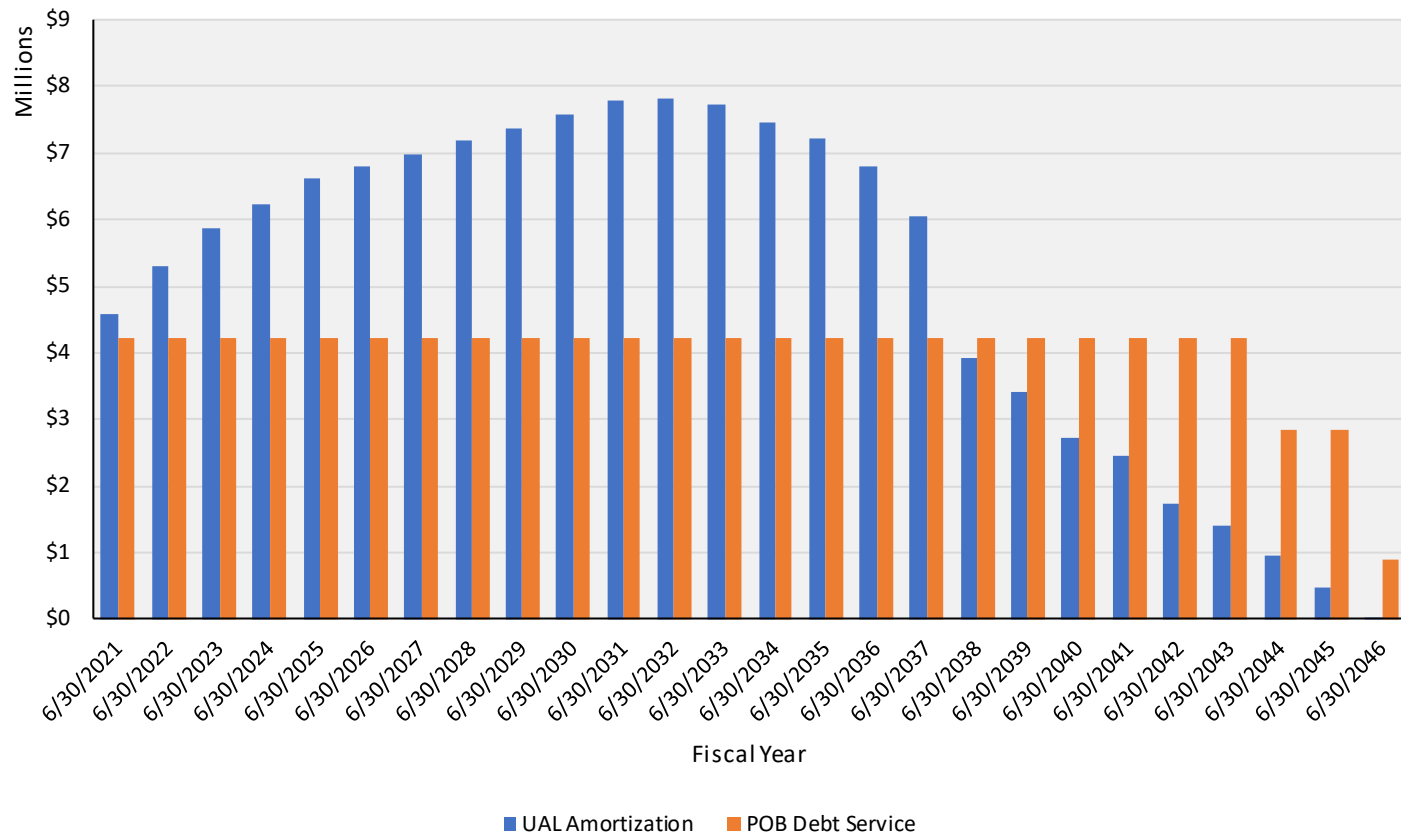
AAA rates as of 6/24/2020; PV Savings at Arbitrage Yield



# Illustrative Pension Obligation Bonds – 80%

- 80% UALs and level debt service

80% UAL Amortization and Estimated POB Debt Service



# Illustrative Pension Obligation Bonds – 100%

- 100% UALs and level debt service

**100% Fire UAL** **19,239,329**     
 **100% Police UAL** **41,425,963**     
 **100% Misc. UAL** **27,985,675**     
 **100% Total UAL** **88,650,967**

3.284%

3.284%

3.284%

3.284%

Required Contribution In	100% Fire UAL				100% Police UAL				100% Misc. UAL				100% Total UAL			
	Payment	POB Debt Service	Savings	PV Savings	Payment	POB Debt Service	Savings	PV Savings	Payment	POB Debt Service	Savings	PV Savings	Payment	POB Debt Service	Savings	PV Savings
6/30/2021	1,221,821	1,108,706	113,115	109,518	2,676,297	2,433,267	243,030	235,302	1,833,630	1,721,518	112,113	108,548	5,731,748	5,263,490	468,258	453,368
6/30/2022	1,418,654	1,111,014	307,641	288,387	3,069,849	2,441,236	628,614	589,272	2,118,747	1,729,687	389,060	364,711	6,607,250	5,281,936	1,325,314	1,242,369
6/30/2023	1,580,795	1,107,893	472,902	429,209	3,398,706	2,442,760	955,947	867,624	2,356,741	1,730,607	626,135	568,284	7,336,242	5,281,259	2,054,983	1,865,117
6/30/2024	1,679,200	1,109,038	570,162	501,028	3,605,618	2,442,474	1,163,145	1,022,109	2,513,552	1,730,151	783,402	688,411	7,798,370	5,281,662	2,516,708	2,211,549
6/30/2025	1,777,996	1,109,350	668,646	568,887	3,812,950	2,440,330	1,372,621	1,167,831	2,679,360	1,728,283	951,077	809,180	8,270,306	5,277,963	2,992,344	2,545,898
6/30/2026	1,824,959	1,108,634	716,325	590,073	3,917,807	2,440,890	1,476,918	1,216,611	2,753,040	1,729,671	1,023,369	843,000	8,495,806	5,279,195	3,216,612	2,649,684
6/30/2027	1,875,146	1,111,918	763,228	608,717	4,025,547	2,439,125	1,586,423	1,265,261	2,828,750	1,729,269	1,099,481	876,898	8,729,443	5,280,312	3,449,132	2,750,877
6/30/2028	1,926,712	1,109,007	817,706	631,429	4,136,249	2,439,830	1,696,420	1,309,968	2,906,540	1,726,918	1,179,622	910,899	8,969,501	5,275,754	3,693,747	2,852,295
6/30/2029	1,979,697	1,109,850	869,848	650,334	4,249,996	2,442,538	1,807,459	1,351,330	2,986,471	1,727,348	1,259,123	941,372	9,216,164	5,279,735	3,936,429	2,943,036
6/30/2030	2,034,138	1,109,722	924,417	669,155	4,366,871	2,443,012	1,923,860	1,392,620	3,068,597	1,731,118	1,337,479	968,158	9,469,606	5,283,851	4,185,755	3,029,932
6/30/2031	2,090,077	1,108,593	981,485	687,873	4,486,960	2,441,182	2,045,779	1,433,784	3,152,986	1,728,051	1,424,935	998,666	9,730,023	5,277,825	4,452,198	3,120,323
6/30/2032	2,147,554	1,111,758	1,035,797	702,854	4,610,351	2,442,720	2,167,631	1,470,877	3,020,555	1,728,784	1,291,771	876,550	9,778,460	5,283,262	4,495,199	3,050,281
6/30/2033	2,119,184	1,108,735	1,010,450	663,852	4,565,235	2,441,698	2,123,538	1,395,137	2,977,552	1,727,580	1,249,972	821,216	9,661,911	5,278,012	4,383,959	2,880,205
6/30/2034	2,087,629	1,109,623	978,006	622,106	4,514,151	2,443,034	2,071,117	1,317,430	2,718,132	1,729,379	988,753	628,942	9,319,912	5,282,036	4,037,876	2,568,478
6/30/2035	2,020,272	1,109,249	911,024	561,072	4,392,710	2,441,505	1,951,205	1,201,688	2,606,853	1,728,977	877,877	540,657	9,019,835	5,279,730	3,740,105	2,303,417
6/30/2036	1,904,589	1,107,934	796,656	475,035	4,175,161	2,442,848	1,732,313	1,032,954	2,415,470	1,726,933	688,538	410,565	8,495,220	5,277,714	3,217,506	1,918,554
6/30/2037	1,701,672	1,110,816	590,857	341,116	3,779,490	2,440,786	1,338,704	772,868	2,083,344	1,729,795	353,550	204,113	7,564,506	5,281,396	2,283,110	1,318,097
6/30/2038	979,397	1,112,606	-133,209	-74,459	2,052,943	2,441,540	-388,597	-217,213	1,875,501	1,730,837	144,665	80,863	4,907,841	5,284,982	-377,141	-210,810
6/30/2039	839,686	1,108,304	-268,618	-145,374	1,770,854	2,439,928	-669,074	-362,098	1,654,653	1,730,059	-75,406	-40,809	4,265,193	5,278,290	-1,013,097	-548,281
6/30/2040	728,731	1,108,092	-379,361	-198,779	1,548,206	2,440,950	-892,744	-467,784	1,122,027	1,727,461	-605,434	-317,238	3,398,964	5,276,502	-1,877,538	-983,800
6/30/2041	660,333	1,111,788	-451,455	-229,033	1,410,400	2,439,424	-1,029,024	-522,047	1,009,935	1,728,043	-718,108	-364,312	3,080,668	5,279,254	-2,198,586	-1,115,392
6/30/2042	521,188	1,108,762	-587,574	-288,611	1,113,305	2,439,333	-1,326,028	-651,332	537,816	1,730,848	-1,193,032	-586,006	2,172,309	5,278,942	-3,106,633	-1,525,949
6/30/2043	498,900	1,109,630	-610,730	-290,446	1,036,550	2,441,474	-1,404,924	-668,142	225,727	1,726,439	-1,500,712	-713,696	1,761,177	5,277,542	-3,516,365	-1,672,283
6/30/2044	396,160	1,109,206	-713,046	-328,321	805,680	2,440,663	-1,634,983	-752,827	0	0	0	0	1,201,840	3,549,868	-2,348,028	-1,081,148
6/30/2045	203,438	1,107,490	-904,052	-403,034	391,191	2,441,900	-2,050,709	-914,222	0	0	0	0	594,629	3,549,390	-2,954,761	-1,317,256
6/30/2046	19,516	1,109,483	-1,089,967	-470,465	0	0	0	0	0	0	0	0	19,516	1,109,483	-1,089,967	-470,465
<b>TOTAL</b>	<b>36,237,444</b>	<b>28,847,193</b>	<b>7,390,251</b>	<b>6,672,124</b>	<b>77,913,077</b>	<b>61,024,439</b>	<b>16,888,638</b>	<b>14,486,999</b>	<b>51,445,979</b>	<b>39,757,750</b>	<b>11,688,229</b>	<b>9,618,972</b>	<b>165,596,500</b>	<b>129,629,382</b>	<b>35,967,118</b>	<b>30,778,094</b>

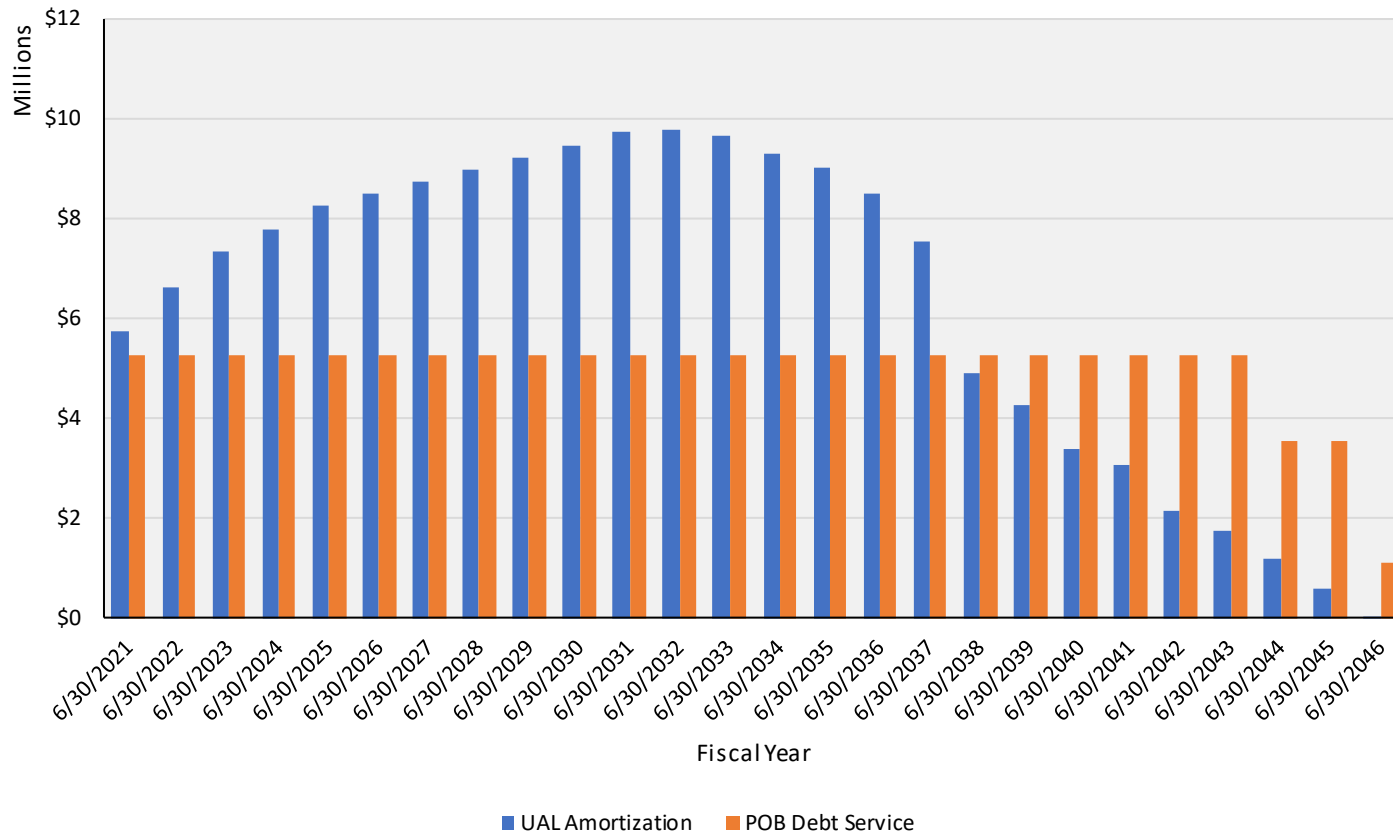
AAA rates as of 6/24/2020; PV Savings at Arbitrage Yield



# Illustrative Pension Obligation Bonds – 100%

- 100% UALs and level debt service

100% UAL Amortization and Estimated POB Debt Service



# Development of a UAL Policy

- In conjunction with a POB issuance, The City is developing a UAL policy as “best practice” to provide guidance on the development and adoption of a funding plan for any UAL
- Overall objective is to fund the CalPERS pension plan near 100% of the total accrued liability and no less than 80%, whenever possible
- The table below lays out the parameters for paying off / funding the UAL in a designated amount of time, based on the amount of the UAL

New Unfunded Accrued Liability (Any new liability incurred after the June 30, 2018 valuation report )	Payoff / Funding Time Period
\$0 to \$5,000,000	Within 1 to 5 years
\$5,000,001 to \$10,000,000	Within 6 to 10 years
\$10,000,001 to \$15,000,000	Within 11 to 15 years
Over \$15,000,001	Within 16 to 20 years

- Funding plan will utilize prepayment discounts, a Section 115 Trust, additional discretionary payments, allocated reserves, and POBs
- 40-60% savings from POBs will be used to offset any future UAL costs that arise and 40-60% of savings will be used to offset General Fund operational costs - (Allocation will be determined annually during the Budget process)
- No offers of any enhanced pension benefits to City employees while POBs are outstanding

# Questions

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# **City of Manhattan Beach Unfunded Pension Liability Policy - Draft**

## **PURPOSE**

The purpose of this Unfunded Pension Liability Policy (“Policy”) is to provide guidance on the development and adoption of a funding plan for any Unfunded Accrued Liabilities (“UAL”) that are calculated annually by CALPERS, or for any unfunded accrued liabilities remaining immediately after the issuance of a Pension Obligation Bond (POB). This funding Policy should also support the decision making process of the City Council and should be consistent with the overall purpose and goals of the City of Manhattan Beach’s pension plan. As used in this Policy, “City” shall mean the City and/or the City and its related entities, as the context may require.

The City recognizes that a fiscally prudent Policy should:

- Maintain the City’s sound financial position
- Ensure the City has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenditures
- Protect the City’s creditworthiness
- Ensure that all pension funding decisions are structured to protect both current and future taxpayers, ratepayers and residents of the City, and
- Ensure that the City’s debt is consistent with the City’s strategic planning goals, objectives, capital improvement program, and/or budget

## **BACKGROUND**

The primary goal of funding defined benefit pension plans is to ensure that sufficient assets will be accumulated to deliver promised benefits when they come due and to protect pension benefits in situations that involve employer insolvency or bankruptcy. Establishing sound funding guidelines promotes pension benefit security. The City’s overall objective is to fund the CALPERS pension plan near 100% of the total accrued liability and no less than 80%, whenever possible.

The City is committed to fiscal sustainability by employing long-term financial planning efforts, maintaining appropriate reserve levels, and employing prudent practices in governance, management, budget administration, and financial reporting. This Policy is intended to make all relevant information readily available to decision-makers and the public to improve the quality of decisions, identify policy goals, and to demonstrate a commitment to long-term financial planning. Adherence to this Policy signals to rating agencies and the capital markets that the City is well managed and able to meet its obligations in a timely manner.

The purpose of this funding policy is to establish a framework for funding the City of Manhattan Beach’s defined benefit pension plan, taking into account factors that are relevant to the plan and the City. These factors include:



- The financial position of the City
- Stability of the plan and / or the affordability of the annual contributions
- Benefit security
- The terms of the CALPERS contract for Manhattan Beach, along with any related collective bargaining agreements
- Minimum funding requirements under State law

There are a number of advantages to developing a funding policy to address an unfunded accrued liability. These advantages include the following:

- Provides the framework to ensure the proper management of future liabilities and to minimize the effects on operations. The adoption of a funding policy will ensure a disciplined decision making process, which will contribute to better predictability in funding.
- Having a written summary of the funding policy that is accessible to the employees and the public will help improve the transparency of funding decisions and increase the understanding of pension funding issues.
- The exercise of developing this funding policy improves the identification, understanding, and management of the risk factors that affect the variability of funding requirements and the security of benefits to the employees and retirees.

#### **REMAINING UNFUNDED ACCRUED LIABILITY**

The City is in the process of considering a POB that would generate bond proceeds to deposit with CALPERS up to an amount equal to 100% of the UAL as of     date     (based on the latest actuarial valuation information available to the City). After the deposit of bond proceeds to CALPERS, the City may or may not have a remaining unfunded accrued liability still owed to CALPERS.

If the City issue's a POB for less than the full 100% of the UAL, any remaining unfunded liability will be accounted for separately, for the purposes of this Policy, from any new increase in the accrued unfunded liability resulting from the annual actuarial valuation report changes.

The City will create a payoff / funding plan that will address this remaining unfunded liability immediately after the issuance of the POB. The remaining unfunded liability will be paid off or fully funded within a twenty (20) year period.

#### **NEW UNFUNDED ACCRUED LIABILITY**

Every year, CALPERS completes a new actuarial valuation report and recalculates the City of Manhattan Beach's pension liability as of the new valuation date. If the value of the funded assets is not equivalent to this new liability amount, the City will incur a new unfunded accrued liability at that point in time. The unfunded accrued liability may increase or decrease from year to year, due to the following factors:

- Changes in actuarial assumptions and experience changes (e.g., changes in the discount rate, changes in demographic experience, etc.)
- Changes in actuarial gains and losses due to asset returns being higher or lower than expected
- Changes in plan benefits

Due to the possibility of a new pension liability developing, the City of Manhattan Beach desires to create a policy in order to immediately address any new pension liabilities, or amortization bases, that arise. (Any new increase or decrease in the liability resulting from the annual actuarial valuation is identified as a separate line item, or amortization base, on the annual CALPERS actuarial valuation report.) The table below lays out the parameters for paying off / funding the UAL in a designated amount of time, based on the amount of the UAL, as follows:

<b>New Unfunded Accrued Liability (Any new liability incurred after the June 30, 2018 valuation report )</b>	<b>Payoff / Funding Time Period</b>
\$0 to \$5,000,000	Within 1 to 5 years
\$5,000,001 to \$10,000,000	Within 6 to 10 years
\$10,000,001 to \$15,000,000	Within 11 to 15 years
Over \$15,000,000	Within 16 to 20 years

Each year, when the City is provided with the annual valuation report from CALPERS, staff will present to the City Council, as part of the Mid-Year Budget Report, the following:

- The dollar amount of the new liability (new amortization base)
- The number of years that staff is recommending to pay off/fund the liability
- The dollar amount of the annual contribution to be made
- The funding source(s) of the payments
- The short-term and long-term financial impacts on the City's General Fund reserve balance

When a new amortization base results in a credit balance, the credit will be applied, first, to any negative bases during the same period and, secondly, against any prior year bases until the credit is fully exhausted. The remaining outstanding liability will then be recalculated and a new payoff schedule and annual contribution will be determined based on the payoff schedule above. New amortization repayment schedules will be kept within 20 years to help maximize long-term savings.

### **PREPAYMENT OPTIONS**

At the beginning of each fiscal year, the City analyzes the cost / benefits of prepaying amounts due CALPERS during that fiscal year. The City strives to continue taking advantage of any prepayment discount that is afforded by CALPERS.

### **FUNDING LEVELS**

The City's target funding level will be near 100% of the accrued liability. The City will strive to achieve this funding level through debt refinancing, allocation of reserves, and / or cost containment measures. The total funding amount will be a combination of the amount on deposit with CalPERS, the funds deposited in the City's Section 115 trust, and any funds reserved by the City that are designated for pension liabilities.

### **FUNDING OPTIONS**

Funding options for the remaining unfunded liability and / or any new unfunded accrued liabilities may include the use of a Section 115 Trust and / or allocating fund reserves from any allowable fund within the City.

#### **Section 115 Trust**

A Section 115 Trust was established in 2017 to transfer funds to a trust to ensure that these funds will only be used for pension related costs. The trust assets can be accessed to pay CalPERS at any time to reduce volatility and offset unexpected pension rate increases. The trust will have funds deposited into it at the discretion of the City Council, based on recommendations made by City staff during the annual budget adoption process. For the calculation of funding levels, monies put in this trust will be treated the same as putting monies on deposit with CalPERS.

### **ADDITIONAL DISCRETIONARY PAYMENTS**

Additional Discretionary Payments ("ADP") may be deposited with CalPERS at any time. After completion of the annual audit, all discretionary fund reserve balances will be reviewed by City staff. Based on any budgetary constraints at that time, a determination may be made that it is in the best interest of the City to use any available reserves or one-time savings from the prior fiscal year to make ADP's. ADP's should not adversely affect the general operations of the City. ADP's could be deposited with CalPERS, or invested in the City's Section 115 trust.

Any savings realized from the issuance of the 2020 POB, as determined by comparing the POB level debt service and fiscal year 2020-2021 CalPERS actuarial determined contributions, will be allocated as follows: 40%-60% of the savings will be used to offset any future UAL costs that arise and 40%-60% of the savings will be used to offset General Fund operational costs.

Each year during the Budget process, a recommendation for the precise savings allocation of the next fiscal year will be determined based on CalPERS' latest year-end investment return. If CalPERS' fiscal year-end investment return is *below* its benchmark, the City will allocate a higher portion of savings to fund future UAL costs. Alternatively, if CalPERS'

fiscal year-end investment return is *higher* than its benchmark, then the City may allocate more of the budgetary savings to offset General Fund operational costs.

### CONSIDERATION OF FUTURE PENSION BENEFITS

The issuance of a POB may result in the funding of the City's pension plan with CalPERS up to, and even in excess of, 100% of the plan assets necessary to pay all pension liabilities. Even though this situation may occur, the City is still obligated to make annual debt service payments on the bonds. These payments are in lieu of annual UAL payments that the City would have made to CalPERS.

To the extent that the City is making any annual debt service payments on an issued POB, it is fiscally responsible for the City to not offer any enhanced pension benefits to City employees. This will allow the City to focus its financial resources on the current pension obligations due the bondholders and / or CalPERS.



Agenda Item #: \_\_\_\_\_

# Staff Report

## City of Manhattan Beach

**TO:** Members of the Finance Subcommittee

**FROM:** Steve S. Charelian, Finance Director  
Henry Mitzner, Controller  
Libby Bretthauer, Senior Financial Analyst

**DATE:** July 22, 2020

**SUBJECT:** Annual Review of City Investment Policy

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**RECOMMENDATION:**

Staff recommends that the Finance Subcommittee approve the FY 2020-2021 Investment Policy.

**FISCAL IMPLICATION:**

There are no immediate fiscal implications associated with the recommended action.

**BACKGROUND:**

The City's adopted Financial Policies state that the City Council shall annually review, and modify as appropriate, the City's Investment Policy. The Finance Subcommittee reviews and approves the policy in advance of City Council review and adoption.

**DISCUSSION:**

The City's investment brokers as well as City staff have reviewed the City's Investment Policy and discussed potential changes based on current laws, regulations and changing market conditions. Furthermore, Investment Policy Certification program guidelines issued by the California Municipal Treasurers Association (CMTA), California Debt and Investment Advisory Commission (CDIAC) and the Association of Public Treasurers of the United States and Canada (APT US&C) were reviewed and incorporated as appropriate.

As recommended by CMTA's Certification Program guidelines, new sections incorporated this year include *10. Review of Investment Policy* and *11. Diversification*. Although the City Treasurer and staff already follow these principles, and similar language had been included in past Investment Policies, the importance of these topics merits their own sections for easier reference.

Staff requests that the Finance Subcommittee review and approve the revised policy and authorize staff to submit it to the full City Council for approval on September 1, 2020.

Attachment: Investment Policy for 2020-2021



# CITY OF MANHATTAN BEACH INVESTMENT POLICY

*Revised July 2020 ~ For Adoption on September 1, 2020*

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**City of Manhattan Beach Investment Policy  
For Adoption on September 1, 2020**

1. Policy

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment process. The initial step toward a prudent investment policy is to organize and formalize investment-related activities. Related activities which comprise good cash management include accurate cash projection, the expeditious collection of revenue, the control of disbursements, cost-effective banking relations, and short-term borrowing programs which coordinate working capital requirements and investment opportunity. In concert with these requirements are the many facets of an appropriate and secure short-term investment program.

2. Scope

It is intended that this policy cover all short-term operating funds and investment activities under the direct authority of the City. These funds are described in the City's annual financial report and include:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Enterprise Funds
- Internal Service Funds
- Fiduciary Funds

This investment policy does not apply to Bond Proceeds or Deferred Compensation Funds. California Government Code Section 5922(d) authorizes bond, certificates of participation notes and other debt issue proceeds to be invested in accordance with the related offering documentation. These Code Sections recognize the unique needs and objectives of such proceeds. Likewise, Deferred Compensation Plans are covered under California Government Code.

3. Objectives

- A. Safety: Safety of principal is the foremost objective of the City, followed by liquidity and yield. Each investment transaction shall seek to first ensure that capital losses are avoided, whether from securities defaults or erosion of market value.

Investment decisions should not incur unreasonable credit or market risks in order to obtain current investment income.

Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in only very safe securities and by diversifying the investment portfolio so that the failure of any one issuer would not unduly harm the City's cash flow.

Market risk, defined as the risk of market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by structuring the portfolio so that

**City of Manhattan Beach Investment Policy  
For Adoption on September 1, 2020**

securities mature at the same time that major cash outflows occur, thus eliminating the need to sell securities prior to their maturity. It shall also be mitigated by prohibiting the taking of short positions (selling securities that the City does not own). It is explicitly recognized herein, however, that in a diversified portfolio occasional measured losses are inevitable and must be considered within the context of overall investment return.

- B. Liquidity: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated. This need for investment liquidity may be tempered to the extent that the City is able to issue short-term notes to meet its operating requirements, if beneficial.
- C. Return on Investments: The investment portfolio shall be managed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow requirements, and state and local law, ordinances or resolutions that restrict the placement of short-term funds.
- D. While the City will not make investments for the purpose of trading or speculation as the dominant criterion, the Treasurer and Director of Finance shall seek to enhance total portfolio return by means of ongoing portfolio management. The prohibition of speculative investments precludes investments primarily directed at gains or profits from conjectural fluctuations in market prices.

4. Prudence

The City adheres to the guidance provided by the "prudent investor standard" in the context of managing its overall portfolio. Persons authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to 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".

All participants in the investment process shall act responsibly as custodians of the public trust. The Treasurer and City Staff shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. Nevertheless, in a diversified portfolio, it must be recognized that occasional measured losses are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

By exercising their authority with due diligence and prudence, and in accordance with the City of Manhattan Beach Investment Policy, the Treasurer and City Staff will not be held personally liable for any individual investment losses or for total portfolio losses.



**City of Manhattan Beach Investment Policy  
For Adoption on September 1, 2020**

5. Delegation of Authority

Pursuant to the California Government Code 53607, the legislative body (City Council) may invest the City's funds or delegate that responsibility to the City Treasurer, who assumes full responsibility for all investment transactions and ensures a monthly report of those transactions is provided to the City Council until the delegation is revoked or expired. The City Council may renew the delegation of authority each year.

The City Treasurer shall establish a system of controls with the Finance Director to regulate the activities of City officials and their procedures, in the event circumstances require timely action and the City Treasurer is not present or able to carry out his/her duties as Treasurer.

6. Ethics and Conflicts of Interest

The Treasurer and City Staff shall refrain from personal business activity that could conflict with proper execution and management of the policy and the investment program, or which could impair their ability to make impartial decisions. The Treasurer and City Staff involved with investments must provide a public disclosure document annually to the office of the City Clerk. Furthermore, these investment officials must refrain from undertaking personal investment transactions with the same individual(s) employed by the financial institution with whom business is conducted on behalf of the City, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City to the office of the City Clerk.

7. Finance Subcommittee

The City Council will appoint a Finance Subcommittee for the purpose of overseeing the implementation of the City's investment program and assuring it is consistent with the investment policy as approved by the City Council. The Finance Subcommittee shall consist of the City Treasurer as Chairperson and two members of the City Council, and shall meet at least quarterly to determine general strategies and to monitor results. The Finance Subcommittee shall include in its deliberations such topics as: economic outlook, portfolio diversification and maturity structure, potential risks to the City's funds, approval of authorized financial institutions, and the target rate of return on the investment portfolio. Written investment procedures must be approved by the Finance Subcommittee. Professional and technical advisory support for the Finance Subcommittee shall be provided by the City Treasurer, City Manager and Director of Finance.

8. Reporting

The Director of Finance shall prepare a monthly investment report and submit to the City Manager, the City Council and the City Treasurer. Schedules of the monthly report shall itemize the month's investment purchases, sales and maturities and indicate their effect on portfolio value; itemize all investments and deposits in the portfolio by investment or deposit category, providing essential identifying characteristics for each investment or deposit; indicate the percentage of the portfolio

**City of Manhattan Beach Investment Policy  
For Adoption on September 1, 2020**

represented by each investment and by each investment category; show all par values, market values and costs at time of purchase, together with each item's coupon or discount rate and current earning rate; show the average earning rate for the portfolio; indicate distribution of the portfolio by maturity category and provide other relevant detail to accomplish disclosure of investment activity and portfolio status.

9. Investment Instruments

General guidelines that the City should follow in managing its investments are as follows:

- No investment will be purchased which matures more than five years from the date of settlement without approval by the City Council at least three months prior.
- Maturities of individual investments shall be diversified, attempting to match cash flow requirements where possible.
- The use of callable securities is permitted within the investment classes listed.

To reduce overall portfolio risk while attempting to attain market value rates of return consistent with the primary objectives of safety and availability of funds, investments shall be diversified across types of investments, maturities of those investments, and institutions in which those investments are made. Generally, the portfolio is to be invested in U.S. Treasury and Federal Agency securities with a modest addition of Bankers Acceptances (BA's) and Certificates of Deposit (CD's), and high-grade Medium-Term Corporate Notes.

**Permitted Investments per City Policy**

Investments shall be made only in those instruments specifically authorized by California State laws (section 53600-53609). The City's specific permitted investment guidelines are listed below. **These are in addition to, and must be used in conjunction with, the State of California statutes applicable to Municipal Investments (see Attachment A).** It should be noted that in some cases the City's permitted investments are more restrictive than the State guidelines.

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<b>Permitted Instruments</b>	<b>City Policies/Limitations</b>
State or County Investment Pool (LAIF)	<b>Dollar Maximum:</b> \$65 million (State limit) <b>Portfolio Maximum:</b> 50% (City limit, unless authorized by Finance Subcommittee – see below)
Federally Insured Banks & Thrifts/Time Deposits	<b>Dollar Maximum:</b> Amount insured including accrued interest <b>Term Maximum:</b> 5 Years
U.S. Treasuries	<b>Dollar Maximum:</b> None <b>Term Maximum:</b> 5 Years
Government Sponsored Enterprises* (US Agencies)	<b>Term Maximum:</b> 5 Years <b>Portfolio Maximum:</b> 60%; 33-1/3% per issuer
Bankers Acceptances	<b>Term Maximum:</b> 180 Days <b>Portfolio Maximum:</b> 20%; 5% per issuer
Commercial Paper	<b>Term Maximum:</b> 270 Days <b>Portfolio Maximum:</b> 15%; 5% per issuer (including Medium-Term Notes)
Medium-Term Notes	<b>Term Maximum:</b> 5 Years <b>Portfolio Maximum:</b> 20%; 10% per sector; 5% per issuer (including Commercial paper) <b>Ratings Minimum:</b> Aaa to A1 (Moody's) or AAA to A+ (Standard and Poor's) <b>Make Whole Call:</b> Only when the MTN is purchased at a discount (i.e. yield-to-maturity exceeds coupon) or par
Negotiable Certificates of Deposit	<b>Term Maximum:</b> 5 Years <b>Portfolio Maximum:</b> 20%; lesser of 5% or \$1 million per issuer
Repurchase Agreements	<b>Term Maximum:</b> 1 Year <b>Portfolio Maximum:</b> 20% A Master Repurchase Agreement must be signed with the bank or dealer. (See Collateralization section below.)
Money Market Mutual Funds	<b>Portfolio Maximum:</b> 20%; 5% per issuer. Issuer must be institutional government money market mutual fund that abides by SEC regulations and have assets under management in excess of \$500+ million.

\*Federal National Mortgage Association (FNMA); Federal Home Loan Mortgage Corporation (FHLMC); Federal Home Loan Bank (FHLB); Federal Farm Credit Bank (FFCB); Federal Agricultural Mortgage Corp (FAMC); Tennessee Valley Authority (TVA); and any other U.S. Federal agency or instrumentality.

**State Local Agency Investment Fund (LAIF)**

The City's policy with regard to LAIF is that no more than 50% of the investment portfolio may be deposited in LAIF at any time (as calculated at month end). Recognizing that LAIF is often the preferred depository for liquid funds, and in-flows during certain cash positive months results in higher LAIF balances, allowances may need to be made for short term holdings in LAIF that exceed 50%. As a result, in the event LAIF reaches the 50% threshold at any given month end, the portfolio must be reduced to the 50% level by the end of the next monthly reporting period.

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When circumstances warrant, the City Treasurer may at his/her sole discretion permit the LAIF balance to exceed 50% of the portfolio for more than the one month period when market conditions make LAIF the preferred deposit for liquid-to-short term investment of City funds. The City Treasurer will provide written notification to the Subcommittee if LAIF exceeds 50% for more than 30 days.

**Investments Not Permitted per City Policy**

Certain investments are prohibited by Government Code section 53601.6, including inverse floaters, range notes, mortgage-derived interest-only strips and securities that result in zero interest accrual if held to maturity (except for money market funds). Besides investments prohibited by statute, this policy also disallows investment in the following due to a higher perceived risk:

- Asset Backed Securities
- State Obligations, including for California and the other 49 states
- Municipal Obligations, including for the City of Manhattan Beach and other local agencies
- Mortgage Pass-Through Securities
- Reverse Repurchase Agreements

**10. Review of Investment Portfolio**

The securities held by the City must be in compliance with Section 9. Investment Instruments at the time of purchase. Because some securities may not comply with Section 9. Investment Instruments subsequent to the date of purchase, the Treasurer and City Staff will review the portfolio annually as part of fiscal year-end procedures to identify those securities that no longer comply. A subsequent change in rating status does not necessarily force the sale or disposition of the investment. In the event that a security has been downgraded or otherwise found to be noncompliant, the Treasurer and City Staff will assess the risk exposure, make a decision on the course of action, and advise the Finance Subcommittee.

**11. Diversification**

The City will diversify its investments by security type and institution to avoid incurring unreasonable and avoidable risks associated with concentrating investments in specific security types, maturity segments, or in individual financial institutions. Specific limitations are identified in Section 9. Investment Instruments.

**12. Maximum Maturities**

Maximum maturities identified in the chart of Permitted Investments refer to the total remaining term from settlement date, which may differ from the original term at time of issue.

To the extent possible, the City attempts to match its investments with anticipated cash flow requirements. The City will not directly invest in securities maturing more than five years from

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the date of purchase. The Treasurer may temporarily exceed this guideline when repositioning the portfolio to match a specific cash flow need, provided that the City Council has given approval at least three months prior to purchasing any investment maturing more than five years from the date of purchase.

13. Relationships with Financial Institutions

- A. The City may only purchase statutorily authorized investments, not purchased directly from the issuer, but from either an institution licensed by the state as a broker/dealer, from a national or state chartered bank, from a federal or state savings institution, from a brokerage firm designated as a primary government dealer by the Federal Reserve Bank, or a member of a securities exchange.
- B. Financial institutions with which the City conducts investment activities must agree in writing to undertake reasonable efforts to prevent illegal and/or imprudent transactions involving City funds. Should it come to the attention of the Director of Finance that City funds have been involved in illegal and/or imprudent transactions, it will be reported to the City Council along with options for dealing with the situation.

All security dealers who wish to engage in transactions with the City must meet the City's requirements for reliability and safety.

- C. To ensure yields consistent with this policy and to provide for the objective investment of City funds, the City's investment procedures shall be designed to include transactions with several firms that compete directly for public business, and to encourage competitive bidding on transactions. Such bids and offers shall be made available upon request to the Finance Subcommittee and the City Manager.
- D. The City shall utilize a minimum of two financial institutions deemed eligible by the Finance Subcommittee to place all investment purchases. Based on a periodic evaluation, securities dealers, banks and other financial institutions will be dropped or continued on the eligibility list. The following criteria will be used in the evaluation:
  - 1. Prompt and accurate confirmation of transactions
  - 2. Efficient securities delivery
  - 3. Accurate market information account servicing

In order to assist in identifying "qualified financial institutions," the Director of Finance shall forward copies of the City's investment policy to those financial institutions with which the City is interested in doing business and require written acknowledgement of the Policy.

All qualified financial dealers must supply the City with the following:

- Annual audited financial statements
- Proof of Financial Industry Regulatory Authority (FINRA) certification
- Trading Resolution
- Proof of State of California registration

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- Completed Broker/Dealer Questionnaire
- Certification of having read the City's policy

The City will maintain an authorized agreement with at least one eligible broker who is associated with an institutional (versus retail) division of a primary brokerage firm.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Treasurer (or Finance Director). A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the City invests.

14. Investment Pools/Money Market Mutual Funds

A thorough investigation of the investment pool and/or money market mutual fund is required prior to investing and on a continual basis thereafter to evaluate the suitability and risks of the pool. The investigation will, at a minimum, obtain the general information:

- A description of eligible investment securities, and a written statement of investment policy and objectives;
- A description of interest calculations and how they are distributed, and how gains and losses are treated;
- A description of how the securities are safeguarded (including the settlement processes) and how often the securities are priced and the program audited;
- A description of who may invest in the program, how often, and what size deposits and withdrawals are allowed;
- A schedule for receiving statements and portfolio listings;
- A description of the utilization and level of reserves, retained earnings or other collateral used by the fund;
- A fee schedule that discloses when and how fees are assessed; and
- Whether the fund is eligible for bond proceeds and/or whether it will accept such proceeds.

15. Collateralization

Collateralization is normally required on two types of investments: certificates of deposit and repurchase agreements. The City does not invest in time deposits or certificates of deposit above the FDIC-insured limit. In order to anticipate market changes and provide a level of security for all funds, the collateralization level for repurchase agreements will be marked-to-market daily to a market valuation of 102% of principal and accrued interest.

16. Safekeeping and Custody

- A. All City investments shall have the City of Manhattan Beach as its registered owner, and all interest and principal payments and withdrawals shall indicate the City of Manhattan Beach as the payee.

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- B. All securities shall be safe kept with a qualified financial institution, contracted by the City as a third party custodian. All securities shall be acquired by the safekeeping institution on a “delivery-versus-payment” (DVP) basis. In other words, the security must be delivered before City funds are released. The DVP basis for delivery also applies to the delivery and safekeeping of repurchase agreement collateral.
- C. Original copies of non-negotiable certificates of deposit and confirming copies of all other investment transactions must be delivered to the City.

17. Internal Control

The Director of Finance shall establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City. Controls deemed most important include: control of collusion, separation of duties, separating transaction authority from accounting and recordkeeping, custodial safekeeping, clear delegation of authority, specific limitations regarding securities losses and remedial action, written confirmation of telephone transactions, minimizing the number of authorized portfolio managers, documentation of transactions and strategies, and ethical standards.

The Director of Finance shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with established policies and procedures.

18. Risk Tolerance

The City recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity.

Portfolio diversification is employed as a way to control risk, as referenced above in paragraph III.D. The Treasurer and City Staff are expected to display prudence in the selection of securities, as a way to minimize default risk. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio.

19. Performance Standards

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the City’s investment risk constraints and cash flow needs. Investment return becomes a consideration only after the basic requirements of investment safety and liquidity have been met.

The City’s investment strategy is passive (buy-and-hold). Given this strategy, the Treasurer and/or Finance Director shall determine whether market yields are being achieved by comparing

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the total return of the portfolio to the monthly LAIF rate and the 12-month rolling average 2-Year Treasury Constant Maturity rate. However, the reporting of these benchmarks is only to be used as a reference tool and therefore should not imply that the City should add additional risk to the portfolio in order to attain or exceed a benchmark. Benchmarks may change over time based on changes to market conditions or cash flow requirements.

20. Investment Policy Adoption

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

The Director of Finance shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, master repurchase agreements, wire transfer agreements, banking service contracts and depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City.



**ATTACHMENT A:**  
**Summary of State of California Statutes Applicable to Municipal Investment**

The following investments are authorized by California State Code, Title 5, Division 2, Sections 16340, 16429.1, 53601, 53601.8, 53635, 53635.2, and 53638.

<b>California Authorized Investments</b>	<b>Key Limitation Summary*</b>
<b>Local Agency Bonds</b>	<b>Portfolio Maximum:</b> None
<b>US Treasury Notes, Bonds, Bills</b>	<b>Portfolio Maximum:</b> None
<b>California State Warrants, Treasury Notes or Bonds</b>	<b>Portfolio Maximum:</b> None
<b>Bonds, Notes, Warrants of any local agency within the State</b>	<b>Portfolio Maximum:</b> None
<b>Federal Agency or United States government-sponsored enterprise obligations</b>	<b>Portfolio Maximum:</b> None
<b>Bankers Acceptances</b>	<b>Portfolio Maximum:</b> 40%; 30% in any one issuer <b>Term Maximum:</b> 180 days
<b>Commercial Paper</b>	Domestic corporation with total assets greater than \$500 million <b>Ratings Minimum:</b> A-1 rated commercial paper <b>Portfolio Maximum:</b> 25%; 10% in any single issuer <b>Term Maturity:</b> 270 days
<b>Negotiable Certificates of Deposit and CD Placement Service</b>	Nationally or state-chartered bank, a savings association or a federal association, a state of federal credit union, or a state licensed branch of a foreign bank. <b>Portfolio Maximum:</b> 30%
<b>Repurchase Agreements</b>	102% underlying security valuation <b>Term Maximum:</b> One Year
<b>Reverse Repurchase Agreements</b>	Security subject to repurchase has been owned & fully paid for at least 30 days prior to sale. Funds received cannot be used to purchase securities with a maturity longer than 92 days. <b>Portfolio Maximum:</b> 20% Maximum limitation <b>Term Maximum:</b> 92 days
<b>Medium Term Corporate Notes</b>	Domestic corporations rated "A" or better by an NRSRO <b>Portfolio Maximum:</b> 30%
<b>Shares of Beneficial Interest Issued By Diversified Management Companies (Mutual &amp; Money Market Funds)</b>	<b>Portfolio Maximum:</b> 20%; 10% per fund Money Market funds registered with the SEC; attained the highest ranking by not less than two nationally recognized rating organizations; assets in excess of \$500 million; investment advisor with not less than five years of experience

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<b>California Authorized Investments</b>	<b>Key Limitation Summary*</b>
<p><b>Local Agency Investment Fund</b> Any <b>mortgage pass through</b> security, <b>collateralized mortgage obligation</b>, mortgage-backed or other pay-through bond, equipment lease-backed certificate, <b>consumer receivable pass through</b> certificate, or consumer receivable-backed bond</p>	<p><b>Investment Maximum:</b> \$50 million <b>Portfolio Maximum:</b> 20% <b>Minimum Rating:</b> “AA” national rating</p>
<p><b>Other Obligation Valuation Requirements:</b> (m) Promissory notes secured by first mortgages and first trust deeds which comply with Section 53651.2. (p) With the consent of the treasurer, letters of credit issued by the Federal Home Loan Bank of San Francisco which comply with Section 53651.6.</p>	<p>(a) Eligible securities, except eligible securities of the classes described in subdivisions (m) and (p) of Section 53651, shall have a market value of at least 10 percent in excess of the total amount of all deposits of a depository secured by the eligible securities. (b) Eligible securities of the class described in subdivision (m) of Section 53651 shall have a market value at least 50 percent in excess of the total amount of all deposits of a depository secured by those eligible securities. (c) Eligible securities of the class described in subdivision (p) of Section 53651 shall have a market value of at least 5 percent in excess of the total amount of all deposits of a depository secured by those eligible securities.</p>
<p>Moneys held by a trustee or fiscal agent pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements</p>	<p>May be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.</p>
<p>Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest</p>	<p>Securities of the types listed by Section 53651 Market value of at least 110% of underlying security value</p>

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<b>California Authorized Investments</b>	<b>Key Limitation Summary*</b>
Other Code Restrictions & Clarifications	<p>A local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in inverse floaters, range notes, or mortgage-derived, interest-only strips.</p> <p>A local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in any security that could result in zero interest accrual if held to maturity.</p> <p>No more than 5 percent of the total assets of the investments held by a local agency may be invested in the securities of any one issuer, except the obligations of the United States government, United States government agencies, and United States government-sponsored enterprises.</p> <p>Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase.</p>

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*\*Unless otherwise stated, all investments have a five year maximum maturity limitation.*

**ATTACHMENT B:**

**GLOSSARY**

**AGENCIES:** Federal agency securities and/or government-sponsored enterprises, such as Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Farm Credit Bank (FFCB), etc.

**ASK:** The price at which securities are offered.

**AVERAGE DAYS TO MATURITY:** The average time to maturity of all the debt securities held in a portfolio.

**BANKERS' ACCEPTANCE (BA):** Short-term credit arrangements to enable businesses to obtain funds to finance commercial transactions. They are time drafts drawn on a bank by an exporter or importer to obtain funds to pay for specific merchandise. By its acceptance, the bank becomes primarily liable for the payment of the draft at its maturity. An acceptance is a high-grade negotiable instrument. Acceptances are purchased in various denominations for 30, 60, or 90 days, but no longer than 180 days. The interest is calculated on a 360-day discount basis similar to treasury bills. Local agencies may not invest more than 40% of their surplus money in banker's acceptance.

**BID:** The price offered for securities.

**BOOK ENTRY SECURITIES:** All U.S. Treasury and Federal Agencies are maintained on computerized records at the Federal Reserve now known as "wireable" securities.

**BROKER:** A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides. In the money market, brokers are active in markets in which banks buy and sell money and in inter-dealer markets.

**CERTIFICATES OF DEPOSIT (CD):** Time deposits of a bank or savings and loan. They are purchased in various denominations with maturities ranging from 30 to multiple years. The interest is calculated on a 360-day, actual day month basis and is payable monthly.

**NEGOTIABLE CERTIFICATES OF DEPOSIT:** Unsecured obligations of the financial institution, bank or savings and loan, bought at par value with the promise to pay face value plus accrued interest at maturity. They are high-grade negotiable instruments, paying a higher interest rate than regular certificates of deposit. The primary market issuance is in multiples of \$1,000,000, the secondary market usually trades in denominations of \$500,000, although smaller lots are occasionally available. As a matter of practice, only the ten largest U.S. banks, where there is a secondary market established for continued liquidity, are considered for investment.

**COLLATERAL:** Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR):** The official annual report for the City of Manhattan Beach. It includes combined statements and basic financial statements for each

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individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related, legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

**COMMERCIAL PAPER:** Short-term unsecured promissory note issued by a corporation to raise working capital. These negotiable instruments are purchased at a discount to par value or at par value with interest bearing. Commercial paper is issued by corporations such as IBM, Bank of America, etc.

Local agencies are permitted by State law to invest in commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical ratings as provided by Moody's Investor's Service, Inc., or Standard and Poor's Corporation. Purchases of eligible commercial paper may not exceed 270 days maturity nor exceed 30% of the local agency's surplus funds.

**COUPON:** The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

**DELIVERY VERSUS PAYMENT (DVP):** There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipts is delivery of securities with an exchange of a signed receipt for the securities.

**DEBENTURE:** A bond secured only by the general credit of the issuer.

**DISCOUNT:** The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

**DISCOUNT SECURITIES:** Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value (e.g., U.S. Treasury bills).

**DIVERSIFICATION:** Dividing investment funds among a variety of securities and issuers offering independent returns.

**DERIVATIVE:** An asset that derives its value from another asset. For example, a call option on the stock of Coca-Cola is a derivative security that obtains value from the shares of Coca-Cola that can be purchased with the call option. Call options, put options, convertible bonds, futures contracts, and convertible preferred stock are examples of derivatives. A derivative can be either a risky or low-risk investment, depending upon the type of derivative and how it is used.

**FEDERAL CREDIT AGENCIES:** Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g. S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

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**FEDERAL FUNDS:** Non-interest bearing deposits held by member banks at the Federal Reserve. Also used to denote "immediately available" funds in the clearing sense. "Fed Funds" also used to refer to these funds.

**FEDERAL FUNDS RATE:** The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

**FEDERAL OPEN MARKET COMMITTEE (FOMC):** Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

**FEDERAL RESERVE SYSTEM:** The central bank of the United States created by Congress and consisting of a seven-member Board of Governors in Washington, D.C., 12 Regional Banks and about 5,700 commercial banks that are members of the system.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A federal agency that insures financial institutions' deposits, currently up to \$250,000 per account.

**FEDERAL HOME LOAN BANKS (FHLB):** Government sponsored wholesale banks (12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

**FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC):** A U.S. Corporation and instrumentality of the U.S. government. Through its purchases of conventional mortgages, it provides liquidity to the mortgage markets, much like FNMA. FHLMC'S Securities are highly liquid and widely accepted. FHLMC assumes and guarantees that all security holders will receive timely payment of principal and interest.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA):** FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing & Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

**GOVERNMENTAL NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae):** Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA or FMHM mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

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**LIQUIDITY:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

**LAIF (Local Agency Investment Fund):** A special fund in the California State Treasury which local agencies may use to deposit funds for investment. There is no minimum investment period and the minimum transaction is \$5,000, in multiples of \$1,000 above that, with a maximum balance of \$50,000,000 for any agency. The City is restricted to a maximum of fifteen transactions per month. It offers high liquidity because deposits can be converted to cash in twenty-four hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share basis determined by the amounts deposited and the length of time they are deposited. Interest is paid quarterly. The State retains an amount for reasonable costs of making the investments, not to exceed one-quarter of one percent of the earnings.

**MAKE WHOLE CALL:** A type of call provision on a bond allowing the borrower to pay off remaining debt early. The borrower makes a lump sum payment derived from a formula based on a predetermined spread to an index (typically a Treasury Note), or par value of the bond.

**MARKET VALUE:** The price at which a security is trading and could presumably be purchased or sold.

**MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between the parties to repurchase--reverse agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

**MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.

**MEDIUM-TERM CORPORATE NOTES:** Unsecured promissory notes issued by a corporation organized and operating in the United States. These are negotiable instruments and are traded in the secondary market. Medium term corporate notes can be defined as extended maturity commercial paper.

Local agencies are restricted by the Government Code to investments in corporations rated in the upper investment grade categories by a nationally-recognized statistical rating organization. Further restrictions are a maximum term of five years to maturity and total investments in medium term corporate notes may not exceed 30% of the local agency's surplus funds.

**MONEY MARKET FUNDS:** Open-ended mutual fund that invests in highly liquid and safe securities (bills, commercial paper, bankers' acceptances, CD's, etc.) and pays money market rates of interest. The fund's net asset value remains a constant \$1 a share.

**NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO):** A credit rating agency that issues credit ratings that the Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes.

**OPEN MARKET OPERATIONS:** Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank, as directed by the FOMC, in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and

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stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

**PORTFOLIO:** Collection of securities held by an investor.

**PORTFOLIO MANAGER:** City Treasurer or Director of Finance.

**PRIMARY DEALER:** A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers, banks, and a few unregulated firms.

**RATE OF RETURN:** The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

**QUALIFIED PUBLIC DEPOSITORIES:** A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

**REPURCHASE AGREEMENTS (RP OR REPO):** A repo or reverse-repo is a short-term investment transaction. Banks buy temporarily idle funds from a customer by selling U.S. Government or other securities with a contractual agreement to repurchase the same securities on a future date. Repurchase agreements are typically for one to ten days in maturity. The customer receives interest from the bank. The interest rate reflects both the prevailing demand for Federal funds and the maturity of the repo. Some banks will execute repurchase agreements for a minimum of \$100,000 to \$500,000, but most banks have a minimum of \$1,000,000. A reverse-repo is exactly what the name implies.

**SAFEKEEPING:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

**SECONDARY MARKET:** A market made for the purchase and sale of outstanding issues following the initial distribution.

**SEC RULE 15C3-1:** See uniform net capital rule.

**SECURITIES AND EXCHANGE COMMISSION (SEC):** Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**SETTLEMENT DATE:** The date on which a trade is cleared by delivery of securities against funds. This date may be the same as the trade date or later.

**TENNESSEE VALLEY AUTHORITY (TVA):** A U.S. Corporation created in the 1930's, to electrify the Tennessee Valley area; currently a major utility headquartered in Knoxville Tennessee. TVA's securities are highly liquid and are widely accepted.

**TRADE DATE:** The date on which a transaction is initiated or entered into by the buyer and seller.



**City of Manhattan Beach Investment Policy  
For Adoption on September 1, 2020**

**TREASURY BILLS:** Issued weekly with maturity dates up to one year. They are issued and traded on a discount basis with interest figured on a 360-day basis, actual number of days. They are issued in amounts of \$10,000 and up, in multiples of \$5,000. They are a highly liquid security.

**TREASURY NOTES:** Initially issued with two- to ten-year maturities. They are actively traded in a large secondary market and are very liquid. The Treasury may issue note issues with a minimum of \$1,000, however, the average minimum is \$5,000.

**TREASURY BOND:** Long-term U.S. Treasury securities having initial maturities of more than ten years.

**UNIFORM NET CAPITAL RULE:** Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

**WHEN-ISSUED TRADES:** Typically, there is a lag between the time a new bond is announced and sold, and the time when it is actually issued. During this interval, the security trades "when, as, and if issued."

**YIELD:** The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

**YIELD TO MATURITY:** The rate of return yielded by a debt security held to maturity when both interest payments and the investor's capital gain or loss on the security are taken into account.



Agenda Item #: \_\_\_\_\_

# Staff Report

## City of Manhattan Beach

**TO:** Members of the Finance Subcommittee  
**THROUGH:** Steve Charelian, Finance Director *SC*  
**FROM:** Cynthia Mickschl, Revenue Services Manager *CM*  
**DATE:** July 22, 2020  
**SUBJECT:** Bad Debt Write-Offs to Collections from April 1, 2020 – June 30, 2020.

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### RECOMMENDATION:

Staff recommends that the Finance Subcommittee ratify the attached summary report of write-offs within the authority of the Finance Director (not to exceed \$5,000).

### FISCAL IMPLICATION:

Financial Credit Network (FCN), the City's collection agency, is paid a commission based on the money collected. The commission percentage is 25% for regular collections or 35% for accounts requiring legal action. The agency provides an initial 15-day grace period. During that period any money collected by the agency will be remitted back to the City without charge.

### BACKGROUND:

City Council approved a policy delegating write-off authority to the Finance Director for uncollectable accounts up to \$5,000. Write-offs of \$5,000 to \$10,000 require the approval of the Finance Subcommittee. Any write-off of uncollectable accounts greater than \$10,000 require City Council approval.

### DISCUSSION:

The City reviewed outstanding accounts that were more than 120 days in arrears as of January 1, 2020 – March 31, 2020. The accounts listed below were within the \$5,000 signing authority of the Finance Director and have been sent to FCN for collection.

- Ambulance Billing: \$ 81,483.99 (April 1, 2020 – June 30, 2020)
- Miscellaneous A/R \$ 7,087.96 (April 1, 2020 – June 30, 2020)
- Utility Billing: \$ 8,107.32 (April 1, 2020 – June 30, 2020)

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The collection process begins once an account remains unpaid for 120 days or more. Once deemed uncollectable by City staff the appropriate authority is asked to approve the account for write-off, and then pertinent information is sent to the collection agency to begin their collection process. Depending upon time and effort, the collection agency may earn up to a 35% commission for the amount they collect.

The Finance Subcommittee receives periodic reports for ratification of all write-offs.

Attachments:


1. Summary of write-offs (not to exceed \$5,000 per line item) from April 1, 2020 – June 30, 2020



# Memorandum

## City of Manhattan Beach

**TO:** Steve S. Charelian, Finance Director

**FROM:** Cynthia F. Mickschl, Revenue Services Manager 

**DATE:** July 14, 2020

**SUBJECT:** Write-Offs for Ambulance Billing, Utility Billings and Miscellaneous Accounts Receivables (April 1, 2020 – June 30, 2020)

In order to maximize revenues from delinquent account holders, the services of an outside collection agency is required. The City contracts with Financial Credit Network (FCN).

The City Council approved write-off limits are:

<u>Authority</u>	<u>Write Off Limits</u>
Finance Director	\$0 - \$5,000
Finance Subcommittee	\$5,001 - \$10,000
City Council	\$10,001+

The attached list of individual accounts, each more than 120 days past due, are all less than \$5,000 (the maximum allowable write-off limit set by policy for the Finance Director). After numerous attempts by City Staff to achieve collections in-house, the accounts remain unpaid. With approval by the Finance Director, we will send these accounts to FCN on April 16, 2020. The grand totals for Ambulance, Utility Billing, Miscellaneous A/R billing and Parking Citations are:

Write-Off Period April 1, 2020 – June 30, 2020:

	<u>Dollar Amount</u>	<u>Number of Accounts</u>
Ambulance Billing:	\$ 81,483.99	46
Miscellaneous Accounts Receivable:	\$ 7,087.96	10
Utility Billing (water & refuse):	\$ 8,107.32	45

Attachments (detailed write off reports):

1. Ambulance Billing
2. Miscellaneous Accounts Receivable
3. Utility Billing (water & refuse)

**AMBULANCE BILLING ACCOUNTS**

No.	Account Number	Last Name	City	State	Balance
1	47647753	VIVEROS	GARDENA	CA	\$ 50.00
2	48134756	BRUNNER	MANHATTAN BEACH	CA	\$ 50.00
3	47504401	ISEMINGER	MANHATTAN BEACH	CA	\$ 100.00
4	48051167	ISEMINGER	MANHATTAN BEACH	CA	\$ 100.00
5	47857795	BUTLER	HARBOR CITY	CA	\$ 100.00
6	47671879	WHILDEN	MANHATTAN BEACH	CA	\$ 114.00
7	47516653	EICHNER	MANHATTAN BEACH	CA	\$ 150.00
8	48289408	HARRIS	MANHATTAN BEACH	CA	\$ 200.00
9	47772007	KITZMILLER	MANHATTAN BEACH	CA	\$ 200.00
10	47671866	BRENNAN	MANHATTAN BEACH	CA	\$ 258.90
11	47550664	LYTER	MANHATTAN BEACH	CA	\$ 514.00
12	48393159	RITZ	PLAYA DEL REY	CA	\$ 796.23
13	47857773	WHITNEY	REDONDO BEACH	CA	\$ 1,232.71
14	47575233	HARKENRIDER	MANHATTAN BEACH	CA	\$ 1,455.51
15	47647756	BATH	MANHATTAN BEACH	CA	\$ 1,728.75
16	47925743	FISCHER	MANHATTAN BEACH	CA	\$ 1,736.39
17	47825776	LASCINK	REDONDO BEACH	CA	\$ 1,737.00
18	48242303	CRUZ	UNKNOWN	N/A	\$ 1,781.00
19	47857770	LIM	UNKNOWN	N/A	\$ 1,807.00
20	47918507	LIEBER	VAN NUYS	CA	\$ 1,819.00
21	48099466	HUNTER	PLAYA DEL REY	CA	\$ 2,059.25
22	48133123	ALVAREZ	LOS ANGELES	CA	\$ 2,141.25
23	48183079	WILSON	MANHATTAN BEACH	CA	\$ 2,337.75
24	47575289	WAY	LOS ANGELES	CA	\$ 2,432.75
25	48393029	LASTRAPES	MANHATTAN BEACH	CA	\$ 2,450.00
26	48035756	VIGNOLA	RICHMOND	VA	\$ 2,484.50
27	48035778	SCHOLZ	MANHATTAN BEACH	CA	\$ 2,516.00
28	47857786	JUSTICE	MANHATTAN BEACH	CA	\$ 2,516.00
29	48393031	KEUNING	UNKNOWN	N/A	\$ 2,551.00
30	48393076	TRONCOSO	UNKNOWN	N/A	\$ 2,570.00
31	48133118	JOHNSON	UNKNOWN	N/A	\$ 2,570.00

**AMBULANCE BILLING ACCOUNTS**

No.	Account Number	Last Name	City	State	Balance
32	47575319	ATKINS	UNKNOWN	N/A	\$ 2,570.00
33	48283395	WHITAKER	UNKNOWN	N/A	\$ 2,570.00
34	48283351	MONAHAN	UNKNOWN	N/A	\$ 2,570.00
35	47750660	HANSEN	UNKNOWN	N/A	\$ 2,570.00
36	48035784	DEZIEL	MANHATTAN BEACH	CA	\$ 2,576.00
37	46667531	COMBS	MANHATTAN BEACH	CA	\$ 2,576.00
38	48393166	HOPKINS	REDONDO BEACH	CA	\$ 2,589.00
39	47857801	POLK	UNKNOWN	N/A	\$ 2,589.00
40	48134792	MAY	MANHATTAN BEACH	CA	\$ 2,596.00
41	47749808	RICE	UNKNOWN	N/A	\$ 2,596.00
42	48242226	SHELTON	UNKNOWN	N/A	\$ 2,608.00
43	48035764	ARAK	UNKNOWN	N/A	\$ 2,608.00
44	47671867	ZIRPOLA	MANHATTAN BEACH	CA	\$ 2,615.00
45	47857767	SHATZ	UNKNOWN	N/A	\$ 2,646.00
46	47575207	SANDAFORD	UNKNOWN	N/A	\$ 2,646.00
					<b>\$ 81,483.99</b>

Date: 7/16/2020

Revenue Services Manager: 


Finance Director: 

**MISCELLANEOUS ACCOUNTS RECEIVABLE**

No.	Invoice #	Type	Lastname	City	State	Balance
1	15-05817	MUNI CODE VIOLATION	SNAPE	SARDIS	CA	\$ 100.00
2	15-05688	8/2019 FALSE ALARM	TRILOGY	MANHATTAN BEACH	CA	\$ 190.00
3	15-05561	5/2019 FALSE ALARM	CVS	MANHATTAN BEACH	CA	\$ 190.00
4	12-05314	COBRA BILLING	TOMIKAWA	CULVER CITY	CA	\$ 192.23
5	15-05711	10/2019 FALSE ALARM	SARKISSIAN	GLENDALE	CA	\$ 285.00
6	15-05725	10/2019 FALSE ALARM	CHILI'S RESTAURANT	MANHATTAN BEACH	CA	\$ 290.00
7	15-05767	11/2019 FALSE ALARM	SUNLIFE ORGANICS	MANHATTAN BEACH	CA	\$ 380.00
8	15-05754	11/2019 FALSE ALARM	MATERN LAW GROUP	MANHATTAN BEACH	CA	\$ 760.00
9	15-05584	COST RECOVERY	JOINER	LONG BEACH	CA	\$ 2,004.47
10	15-05601	COST RECOVERY	ERVIN	HARBOR CITY	CA	\$ 2,696.26
						<b>\$ 7,087.96</b>

Date: 7/16/2020

Revenue Services Manager: 

Finance Director: 

## UTILITY BILLING ACCOUNTS


No.	Account Number	Lastname	City	State	Balance
1	89-0135021-08	ROCHELLI	MANHATTAN BEACH	CA	\$56.86
2	75-0104812-11	LISEE	MANHATTAN BEACH	CA	\$67.14
3	78-0807018-04	REIDER	REDONDO BEACH	CA	\$68.32
4	62-0066016-09	PERROTT	AUSTIN	TX	\$70.27
5	58-0645010-13	MEYER	MANHATTAN BEACH	CA	\$72.32
6	20-0190020-10	ELKIN	PALOS VERDES ESTATES	CA	\$74.56
7	37-0443010-06	MCCAVERY	MANHATTAN BEACH	CA	\$82.44
8	29-0271114-11	DAMMAN	LA CRESCENTA	CA	\$82.94
9	98-0232030-07	APRAHAMIAN	HAWTHORNE	CA	\$83.09
10	22-0568011-09	MOSLEY	FITCHBURG	WI	\$86.85
11	21-0406011-08	MAGUIRE	MANHATTAN BEACH	CA	\$90.97
12	84-1649027-05	CHENG	MANHATTAN BEACH	CA	\$99.97
13	29-0281115-13	MAGINNIS	HERMOSA BEACH	CA	\$105.79
14	82-1378011-06	CHAMPAGNE	MANHATTAN BEACH	CA	\$106.75
15	10-3130001-12	CURREN	MANHATTAN BEACH	CA	\$107.51
16	40-0260122-05	CIVALLERI	THOUSAND OAKS	CA	\$108.74
17	85-1978024-07	CORBETT	MANHATTAN BEACH	CA	\$115.68
18	10-5600501-02	JUDSON	MANHATTAN BEACH	CA	\$116.12
19	63-0394010-06	SARTINI	MANHATTAN BEACH	CA	\$123.47
20	40-0134058-21	BECK	HERMOSA BEACH	CA	\$124.83
21	10-4003000-02	KOLB	MANHATTAN BEACH	CA	\$126.35
22	61-1144021-10	PLANK	MANHATTAN BEACH	CA	\$130.06
23	84-1769013-09	GALLEMORE	MANHATTAN BEACH	CA	\$133.72
24	40-0303125-01	MEIER	MANHATTAN BEACH	CA	\$152.46
25	78-0822020-14	ROHERA	MANHATTAN BEACH	CA	\$158.52
26	71-0642011-13	MAZZOCCO	MANHATTAN BEACH	CA	\$164.01
27	92-0335011-12	KRAUSE	MANHATTAN BEACH	CA	\$178.94
28	39-0070013-06	WIGINGTON	PLAYA DEL REY	CA	\$180.27
29	29-0317010-08	HENRY-WOODWARD	MANHATTAN BEACH	CA	\$183.51
30	16-2270002-04	KIDD	MANHATTAN BEACH	CA	\$184.90
31	10-2022000-04	GRAHAM	MANHATTAN BEACH	CA	\$186.18
32	68-0113015-17	KUHN	MANHATTAN BEACH	CA	\$190.41
33	40-0179011-06	GARNHOLZ	REDONDO BEACH	CA	\$206.98
34	53-0816010-04	MANLEY	WALTHAM	MA	\$217.69
35	20-0190020-09	SHNEIDERSON	MANHATTAN BEACH	CA	\$228.34
36	53-0749123-04	JRO CONSTRUCTION	MANHATTAN BEACH	CA	\$248.41
37	86-2202010-06	MULLINS	VISTA	CA	\$257.24
38	32-0623011-24	WITHERO	MANHATTAN BEACH	CA	\$283.05



## UTILITY BILLING ACCOUNTS

No.	Account Number	Lastname	City	State	Balance
39	29-0321570-04	FULLER	MANHATTAN BEACH	CA	\$291.14
40	92-0352011-06	1400 LYNN GROVE DR	MANHATTAN BEACH	CA	\$348.34
41	43-0791023-13	AUSEN	MANHATTAN BEACH	CA	\$374.42
42	31-0467012-04	MIKE DAVIS CUSTOM HOMES	MANHATTAN BEACH	CA	\$385.78
43	92-0339032-07	LAURENT	MANHATTAN BEACH	CA	\$446.29
44	77-0688115-10	BEAGLE REAL ESTATE INVMTS LLC	NORTHRIDGE	CA	\$453.83
45	73-1086011-07	ARQUETTE	MANHATTAN BEACH	CA	\$551.86
					<b>\$8,107.32</b>

Date: 7/15/2020

Revenue Services Manager: 

Finance Director: 