RESOLUTION NO. 2008-284

Adopted by the Sacramento City Council

May 13, 2008

APPROVING THE CITY OF SACRAMENTO'S INVESTMENT POLICY AND THE DELEGATION OF AUTHORITY TO THE CITY TREASURER

BACKGROUND

A. California Government Code Chapter 749, Statutes of 1996 authorized the legislative body of a local government to delegate its investment authority to the Treasurer of the local agency for a one-year period.

B. The City Council has reviewed the City of Sacramento's Investment Policy, as Exhibit A.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

Section 1. The City Council approves the Investment Policy attached as Exhibit A. The Investment Funds shall be invested in consideration of the City's amended Investment Policy and City Resolutions 89-167 and 95-108, herein incorporated as Exhibit B.

Section 2. In accordance with the authority granted by City Charter Section 73, City Council ordinances and resolutions authorize the City Treasurer to invest and report upon surplus funds.

Section 3. The City Treasurer shall assume full responsibility for the transactions until delegation of authority is revoked or the one-year period expires.

Table of Contents:

Exhibit A: City of Sacramento Investment Policy
Exhibit B: Resolution No. 89-167 and Resolution No. 95-108

Adopted by the City of Sacramento City Council on May 13, 2008 by the following vote:

Ayes: Councilmembers Cohn, Fong, McCarty, Pannell, Sheedy, Tretheway, Waters, and Mayor Fargo.

Noes: None.

Abstain: None.

Absent: Councilmember Hammond.

Heather Fargo

Mayor Heather Fargo

Attest:

Shirley Concolino

Shirley Concolino, City Clerk

CITY OF SACRAMENTO
Investment Policy

I. INTRODUCTION

The purpose of this document is to state the policies and procedures that enhance opportunities for a prudent and systematic investment process within the City of Sacramento Treasurer's office. The City Treasurer is responsible for investing and reporting upon the surplus funds in the City Treasury in accordance with the authority granted by City Charter Section 73, City Council ordinances and resolutions, California Government Code, the Administration, Investment and Fiscal Management Board of the Sacramento City Employees Retirement System (SCERS), the Ann Land/Bertha Henschel Memorial Fund Commission, the Ethel MacLeod Hart Fund Commission, George H. Clark Scholarship Memorial Fund Trustees, Sacramento Housing and Redevelopment Agency Ordinances and resolutions, and other entities as approved by the City Council.

II. INVESTMENT POLICY

The investment policy of the City of Sacramento is established in the Sacramento City Code and authorizes the City Treasurer to make investments deemed wise and prudent. As it pertains to City investment Pool A and public funds invested with the City of Sacramento, the Treasurer with the approval of City Council determined that the investment would be consistent with California Government Code Sections 53600.5 and 53601 compliant. However, when in the opinion of the City Treasurer deviation from these current guidelines is prudent and in the best interest of the City, the City Treasurer shall seek City Council approval to expand the guidelines of the government code program to make such investments.

A. Investment program goals and objectives, on a portfolio-by-portfolio basis;

B. Programs applying recognized portfolio management techniques;

C. Delegation of investment authority limits for staff, and

D. Investment Committee strategies approved by the City Treasurer.

III. INVESTMENT PROGRAM GOAL

The primary investment goal of the City Treasurer is to earn a maximum rate of return on investments that follow "Prudent Person" guidelines as outlined in California Civil Code Section 2261, California Government Code Section 53600.3 or other investment

management portfolio guidelines that are considered standards for the investment of public and trust funds.

IV. OBJECTIVE

A. SCERS

- To earn a rate of return from investments at least equal to the actuarial earnings assumption of the SCERS through the prudent implementation of investment policy, guidelines and approved current investment strategy.

B. CITY POOL A OR OTHER CITY PUBLIC INVESTMENT FUNDS

- To earn a rate of return from investment at least equal to the Local Agency Investment Fund of the State of California or other appropriate index through the prudent implementation of investment policy, guidelines and approved current investment strategy. The allowable investments for purchase without previous City Council approval to purchase and deemed prudent by the City Treasurer are shown as *Exhibit A-1* (Allowable Investment Instruments per State Government Code 53601).

C. SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY (SHRA)

- Pool D
  - For investment of federal funds the primary objective is liquidity and safety. The funds, as identified by SHRA, will be invested in U.S. Government securities and investments. It should be invested prudently in conformance with federal regulations and scheduled to mature to meet the estimated cash needs of SHRA.
  - For non-federal funds, to be in conformance with State investment guidelines for local governmental entities, especially redevelopment agencies. To earn a rate of return from investment at least equal to the Local Agency Investment Fund of the State of California or other appropriate index through the prudent implementation of investment policy, guidelines and approved current investment strategy.
- Other SHRA Pools
  - The primary objective is liquidity and safety. The funds will be invested consistent with State investment guidelines and bond

covenants and using prudent investment practices in accordance with SHRA's investment guidelines and approved current investment strategy.

D. TRUST FUNDS OR OTHER INVESTMENT FUNDS MANAGED BY THE CITY TREASUER WITH CITY COUNCIL APPROVAL AS OUTLINED IN *Exhibit A-2.*

- To earn a rate of return from investments that maximizes interest income through the prudent implementation of investment policy, guidelines and approved current investment strategy.

V. ADDITIONAL CONSIDERATIONS

A. IMPORTANT FACTORS TO CONSIDER

- Portfolio management shall be conducted in a prudent manner, and
- Reasonable care shall be taken with respect to the preservation of principal of invested capital, and
- The City's investment portfolios shall maximize earnings after consideration that the portfolio is sufficiently liquid to meet all operating requirements.

B. IMPLEMENTATION STRATEGIES AND GUIDELINES

The following strategies should be considered:

- Credit and financial analysis for selection of approved investments and/or issuers;
- Routine reviews of current U.S. economic policy;
- Analysis and interpretation of Federal Reserve policy;
- Interface with Wall Street economists;
- Maintenance and forecast of yield curve patterns;
- Awareness of market conditions and ability to execute orders;
- Routine reviews of investments and funds available to assure maximum return is achieved;
- Routine reports on investment activity consummated and investment results
- Development and maintenance of investment manuals for each investment portfolio managed, and
- Routine reviews of investment policy and strategies at Investment Committee meetings.

C. RECOGNIZED PORTFOLIO MANAGEMENT TECHNIQUES

- Rate anticipation swaps on the condition that no more than 10% of any investment portfolio may be in such condition at any given time.

- Arbitrage swaps, which take advantage of additional, yield by switching from the same or an equivalent security in order to take advantage of unusual price discrepancies. For the above to be considered as execution of recognized portfolio management techniques, the following requirements regarding the maturity date of the instrument ultimately purchased are as follows:

  For securities that mature within 3 years from date of initial action:
  The maturity date of the investment ultimately purchased must be within 30 days prior to or after the maturity date of the security initially owned.

  For securities that mature longer than 3 years from date of original action:
  The maturity date of the investment ultimately purchased must be within 6 months prior to or after the maturity date of the investment security initially owned.

- Sector and/or time spread swaps, which take advantage of the potential for additional yield by restructuring the portfolio when normal relationships are out of line.

- Reverse Repurchase Agreements or Security Loans to enhance investsment income of the portfolio.

- Interfund Purchase – Sales are only permitted to maximize the investment income of the affected managed funds, whenever the internal handling costs would be exorbitant or a temporary price distortion would occur in the market place as a result of the restricted marketability of the investment vehicle to be sold. Such transactions shall be made in compliance with the adopted Interfund Investment Transfer Procedures.

D. BOOKKEEPING GAINS (LOSSES)

- Net gain (loss) limits
- Bookkeeping losses for investment portfolio management techniques are permitted so long as the ultimate interest income earned from an alternative investment exceeds the bookkeeping loss. Bookkeeping gains (losses) not to exceed $10,000 on a single sale are within the authority of the Investment and Operations Manager. Any bookkeeping gains (losses) to be incurred in excess of $10,000 in a single sale must first be approved by the Assistant City Treasurer, with a maximum limit on net-booked gains (losses) of $100,000 per month without further approval of the City Treasurer. The

intent of the trading operation is to enhance investment income and maintain a net trading benefit position.

- Net trading benefit position is defined as the additional net investment income that will be earned as a result of the execution of portfolio management techniques. The criteria to measure such benefits will be to calculate the net investment income that would have been earned from an authorized investment security had the portfolio management technique not been executed, and comparing this amount to the net investment income that will be earned as a result of execution of the portfolio management technique.

E. QUALIFICATION OF BROKER, DEALERS, AND FINANCIAL INSTITUTIONS:

- Authorized broker/dealers and financial institutions will be selected and evaluated pursuant to the City Treasurer's Broker/Dealer Selection Policy. The procedure considers such issues as services provided, credit characteristics and financial history of the firm, and the evaluation of the "Success/Opportunity Ratio" throughout the period in which the firm is transacting business with the City.

VI. DELEGATION OF INVESTMENT AUTHORITY

A. The City Treasurer delegates investment authority to the following:

- Assistant City Treasurer
- Chief Investment Officer
- Investment and Operations Manager
- Investment Officer(s)

B. Investment transactions in excess of trading limits are to be directed and approved by the City Treasurer.

C. Trading limits are established for transactions not covered in Section VI-B, above.

Trading limits authorize investment transactions as follows:

- City Treasurer:
  10% of the investment portfolio(s) at any time, with additional authority as justified by the occasion. A report will be made to the appropriate entity when more than 10% of the portfolio is traded at one time.

- Assistant City Treasurer

7.5% of the investment portfolio(s) at any time without additional approval of the City Treasurer.

- Chief Investment Officer:
  5% of the investment portfolio(s) at any time without additional approval of the City Treasurer or Assistant City Treasurer.

- Investment and Operations Manager:
  4% of the investment portfolio(s) at any time without additional approval of the City Treasurer or Assistant City Treasurer.

- Senior Investment Officer:
  3% of the investment portfolio(s) without prior approval of the Investment and Operations Manager.

- Investment Officer II:
  1-1/2% of the investment portfolio(s) without prior approval of the Sr. Investment Officer.

- Investment Officer I:
  May execute a transaction of up to $5MM in Repo without prior approval of Sr. Investment Officer.

- Trading limit guidelines and definitions:
  The transaction limits (except Repo) apply to one side of a trade. Example: a $2MM security is sold, a $2MM security may be purchased. This should not be construed to mean that the authority allows $4MM in purchases.

- Trading limits permit investment staff limited discretion for investment selections that may not have been approved in advance by the City Treasurer or the appropriate regulatory body.

- Transactions falling into the trading limit category should be reported to the City Treasurer within 48 hours and at the next scheduled Investment Committee meeting.

- Trading limits do not authorize over-trading, churning or chaining investment activity.

VII. INVESTMENT STRATEGIES

A. An Investment Committee is established and comprised of the following:

- City Treasurer
- Assistant City Treasurer
- Chief Investment Officer
- Investment and Operations Manager
- Investment Officer(s)

The intent of the Investment Committee is to report and review all investment activity and investment strategies. The Investment Committee will meet periodically, as prudent and required.

Investment strategies, which have been approved by the City Treasurer, shall be in force and implemented through the direction of the Assistant City Treasurer. Investment strategies will be reviewed at least quarterly.

Approved: _____
THOMAS P. FRIERY
City Treasurer

Date: May 23, 2006

City of Sacramento
Tax ID# 94-6000410

FIGURE 1

ALLOWABLE INVESTMENT INSTRUMENTS
PER STATE GOVERNMENT CODE (AS OF JANUARY 1, 2007)[A]
APPLICABLE TO ALL LOCAL AGENCIES[B]
see "Table of Notes for Figure 1" on the next page for footnotes related to this figure

INVESTMENT TYPE	MAXIMUM MATURITY[C]	MAXIMUM SPECIFIED % OF PORTFOLIO[D]	MINIMUM QUALITY REQUIREMENTS
LOCAL AGENCY BONDS	5 YEARS	— NONE —	— NONE —
U.S. TREASURY OBLIGATIONS	5 YEARS	— NONE —	— NONE —
STATE OF CA OBLIGATIONS	5 YEARS	— NONE —	— NONE —
CA LOCAL AGENCY OBLIGATIONS	5 YEARS	— NONE —	— NONE —
U.S AGENCIES	5 YEARS	— NONE —	— NONE —
BANKERS' ACCEPTANCES	180 DAYS	40%[E]	— NONE —
COMMERCIAL PAPER —SELECT AGENCIES[F]	270 DAYS	25% OF THE AGENCY'S MONEY[G]	*"A-1/P-1/F-1"; if the issuer has issued long-term debt it must be rated "A" without regard to modifiers*[H]
COMMERCIAL PAPER —OTHER AGENCIES[I]	270 DAYS	40% OF THE AGENCY'S MONEY[J]	*A-1/P-1/F-1"; if the issuer has issued long-term debt it must be rated "A" without regard to modifiers*[H]
NEGOTIABLE CERTIFICATES OF DEPOSIT	5 YEARS	30%[K]	— NONE —
CD PLACEMENT SERVICE	5 YEARS	30%[K]	— NONE —
REPURCHASE AGREEMENTS	1 YEAR	— NONE —	— NONE —
REVERSE REPURCHASE AGREEMENTS AND SECURITIES LENDING AGREEMENTS	92 DAYS[I]	20% OF THE BASE VALUE OF THE PORTFOLIO	— NONE —[M]
MEDIUM-TERM NOTES[N]	5 YEARS	30%	"A" RATING
MUTUAL FUNDS AND MONEY MARKET MUTUAL FUNDS	N/A	20%[O]	MULTIPLE[P,Q]
COLLATERALIZED BANK DEPOSITS	5 YEARS	— NONE —	— NONE —
MORTGAGE PASS-THROUGH SECURITIES	5 YEARS	20%	"AA" RATING[R]
BANK/TIME DEPOSITS	5 YEARS	— NONE —	— NONE —
COUNTY POOLED INVESTMENT FUNDS	N/A	— NONE —	— NONE —
JOINT POWERS AUTHORITY POOL	N/A	—NONE —	MULTIPLE[S]
LOCAL AGENCY INVESTMENT FUND (LAIF)	N/A	— NONE —	— NONE —

TABLE OF NOTES FOR FIGURE 1

A. Sources: Government Code Sections 16429.1, 53601, 53601.8, 53635, and 53638.

B. Municipal Utilities Districts have the authority under the Public Utilities Code Section 12871 to invest in certain securities not addressed here.

C. Government Code Section 53601 provides that the maximum term of any investment authorized under this section, unless otherwise stated, is five years. However, the legislative body may grant express authority to make investments either specifically or as a part of an investment program approved by the legislative body that exceeds this five year maturity limit. Such approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.

D. Percentages apply to all portfolio investments regardless of source of funds. For instance, cash from a reverse repurchase agreement would be subject to the restrictions.

E. No more than 30 percent of the agency's money may be in Bankers' Acceptances of any one commercial bank.

F. "Select Agencies" are defined as a "city, a district, or other local agency that do[es] not pool money in deposits or investment with other local agencies, other than local agencies that have the same governing body."

G. No more than 10 percent of agency's money may be invested in any one issuer's commercial paper.

H. Issuing corporation must be organized and operating with the U.S. and have assets in excess of $500,000,000.

I. "Other Agencies" are counties, a city and county, or other local agency "that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body." Local agencies that pool exclusively with other local agencies that have the same governing body must adhere to the limits set for "Select Agencies," above.

J. No more than 10 percent of the of the agency's money may be invested in the Commercial Paper of any one corporate issuer.

K. No more than 30 percent of the agency's total funds may be invested in CDs authorized under Sections 53601.8, 53635.8, and 53601 (h) combined.

L. Reverse repurchase agreements or securities lending agreements may exceed the 92-day term if the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity dates of the same security.

M. Reverse repurchase agreements must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has a significant relationship with the local agency. The local agency must have held the securities used for the agreements for at least 30 days.

N. "Medium-term notes" are defined in Government Code Section 53601 as "all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating with the U.S. or by depository institutions licensed by the U.S. or any state and operating within the U.S."

O. No more than 10 percent invested in any one mutual fund.

P. A mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of $500 million, and has at least five years experience investing in instruments authorized by Government Code Sections 53601 and 53635.

Q. A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years experience investing in money market instruments with assets under management in excess of $500 million.

R. Issuer must have an "A" rating or better for the issuer's debt as provided by a nationally recognized rating agency.

S. A joint powers authority pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of $500 million, and has at least five years experience investing in instruments authorized by Government Code Section 53601, subdivisions (a) to (n).

TRUST FUNDS AND OTHER INVESTMENT FUNDS

Ann Land/Bertha Henschel Public Trust Mutual Fund

Ethel Macleod Hart Fund

George H. Clark Memorial Scholarship

Capital Area Development Authority

United Way of Sacramento

The Natomas Basin Conservancy

Sacramento Public Library Authority

American River Flood Control District

RESOLUTION NO. 89-167

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

FEB 2 8 1989

A RESOLUTION AMENDING RESOLUTION NO. 446, ADOPTED DECEMBER 17, 1964, RELATING TO THE AUTHORIZATION OF THE INVESTMENT OF SURPLUS MONEY IN THE TREASURY OF THE CITY OF SACRAMENTO

WHEREAS, Government Code Section 53601 provides that investment of municipal funds cannot be made in certain securities having a term remaining to maturity in excess of five years unless the legislative body has approved such investments as part of an investment program, no less than three months prior to the investment; and

WHEREAS, the City Treasurer has recommended that the City Council amend Resolution 446, relating to investment of surplus funds by the City Treasurer, to provide that the Treasurer's authority extend to investments having a term remaining to maturity in excess of five years;

NOW THEREFORE BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

1. Resolution No. 446 is hereby amended to read as follows under item 1: "The City Treasurer is hereby authorized and instructed to invest such portion of any such surplus in such a manner as he deems wise and prudent as long as such investments are legal for cities as set forth in the Government Code of the State of California. This includes those investments with maturities in excess of five years."

Anne Rudin
Mayor

ATTEST:

Anne G. Mason
ACTING City Clerk

RESOLUTION No. 89-167
FEB 2 8 1989

RESOLUTION NO. 95-108

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF MAR 1 4 1995

RESOLUTION STATING THE CITY COUNCIL'S PRINCIPLES REGARDING LOCAL INVESTMENT AUTHORITY

WHEREAS, as the result of the December 1994 Orange County investment problem, legislation has been introduced which may adversely impact the City's investment program, and

WHEREAS, the City Council believes that the City has a sound and prudent investment program, and

WHEREAS, the City Council believes that local control of City finance, including the investment program, should be maintained,

NOW, THEREFORE, BE IT RESOLVED that the City Council hereby adopts the following eight principles regarding local investment authority:

1. The Sacramento City Council has sole authority and responsibility for City investment policies.

2. The City Treasurer, pursuant to authority granted by the City Charter and the City Council, is responsible for the prudent investment of City funds.

3. Full disclosure and prompt reporting of investment policy, strategies, programs and actual investments is required.

4. City officials involved in the investment programs are held to the "prudent person" standard, which requires sufficient expertise, experience and training to make knowledgeable and informed investment decisions.

FOR CITY CLERK USE ONLY

RESOLUTION NO.: 95-108

DATE ADOPTED: MAR 1 4 1995

5. City officials involved in the investment programs have a fiduciary responsibility for the monies managed.

6. Speculative investments are prohibited.

7. Internal controls, reviews and reporting procedures must be maintained to assure adherence to these principles.

8. Investments should be evaluated first to meet the cash flow needs of the City, second for safety of principal, third for liquidity, and lastly for yield.

MAYOR

ATTEST

CITY CLERK

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RESOLUTION NO.: 95-108

DATE ADOPTED: MAR 14 1995