Title: City of Sacramento Investment Policy and Delegation of Investment Authority to City Treasurer

Location: Citywide

Recommendation: Adopt a Resolution approving the investment policy governing the investments and management of City of Sacramento pooled funds and delegating investment authority to the City Treasurer.

Contact: Stacy Hussey, Chief Investment Officer, (916) 808-7746; John Colville, City Treasurer, (916) 808-8297, Office of the City Treasurer

Presenter: None

Attachments:
1-Description/Analysis
2-Background
3-Investment Policy (Redline)
4-Resolution
5-Exhibit A- City of Sacramento Investment Policy
Description/Analysis

**Issue Detail:** The City Treasurer annually presents to the City Council for its consideration and approval the investment policies governing the investment of funds held in the City’s pooled treasury funds. The policies govern the City’s investment practices and are set forth in an Investment Policy document. The Investment Policy was last approved by the Council on July 31, 2018, by Resolution No. 2018-0302. The attached investment policy includes new language in section II(B)(2) regarding Local Community Investments. Both a redline and clean version of the proposed Investment Policy is attached as Exhibit A to the accompanying Resolution.

Section 73 of the Sacramento City Charter vests the City Treasurer with authority to deposit and invest funds of the City treasury, subject to the annual delegation of investment authority from the City Council to the City Treasurer pursuant to Government Code section 53607. In accordance with Government Code section 53607, the City Treasurer recommends that the City Council delegate to the City Treasurer the authority and responsibility of investing funds held in the City’s pooled treasury funds for the next twelve months in a manner consistent with the approved Investment Policy.

**Policy Considerations:** Sound investment practices are facilitated by the preparation of written governing policy statements. The proposed Investment Policy includes the primary objective of preserving the safety of principal which is followed by the objectives of meeting the liquidity needs of the City and obtaining a fair rate of return on investments. The proposed Investment Policy adopts the full range of authorized investments set forth in Government Code section 53601 and related provisions. The delegation of investment authority from the City Council to City Treasurer allows the City Treasurer’s Office to continue the prudent and efficient investment City funds and is consistent with the intent of the City Charter regarding the duties of the City Treasurer.

**Economic Impacts:** None

**Environmental Considerations:** None

**Sustainability:** None

**Commission/Committee Action:** None

**Rationale for Recommendation:** The prudent management of the City’s treasury pools is enhanced by the adoption of an Investment Policy setting forth the parameters under which such funds are invested. The delegation of investment authority from the City Council to City
Treasurer allows the City Treasurer's Office to continue the prudent and efficient investment City funds.

**Financial Considerations:** The Investment Policy sets forth the three primary objectives of the City's investment of the pooled funds. In order of priority, the objectives are preservation of principal, meeting the liquidity needs of the City, and achieving a rate of return on investments commensurate with satisfaction of the other two objectives. Such prudent management of funds is critical in allowing the City to cover the expenditures in the operation of the City and its myriad of activities as set forth in the City's approved budget and various Council actions. The delegation of investment authority from the City Council to City Treasurer allows the City Treasurer's Office to continue to support the City's cash flow needs in an effective and efficient manner.

**Local Business Enterprise (LBE):** Not applicable
BACKGROUND

Interest Rate Environment and Investment Implications

The first three quarters of FY2019 saw 5-year\(^1\) treasury bond yields rising through early November before falling quite precipitously. Yields began the fiscal year just below 2.74% on June 30, 2018, reached 3.08% on November 8, then fell steadily over the next few months, closing March 2019 at 2.23% (See below chart). Although domestic economic indicators remained strong and consumer confidence remained high, The Fed decided to slow their rate hikes, skipping one that many had expected to happen in December. Fed Chair Jerome Powell explained that they would not raise or lower interest rates unless their analysis of all economic data made it clear that action was necessary.

![5-Year US Treasury Yield, FY 2019](image)

Job creation continued to be strong and unemployment held steady around 3.8%, meaning inflation was one of the main reasons The Fed decided to slow (or halt) rate hikes. Simply, there was little to no inflation growth over the first 9 months of the fiscal year. Wages showed some upward movement, but prices in other areas, including energy, remained rather steady. This data, combined with the U.S. economy maintaining steady growth rates, pushed The Fed to keep rates steady, rather than having them outpace inflation and possibly overheat American markets. Investors, after some quick adjustments to the strategies they have maintained since November of

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\(^1\) The financial markets generally utilize the interest rate on 10-year Treasury bond as the benchmark indication of the prevailing market interest rate. However, since the City's Investment Policy and California state law caps maturity on the bonds the City may purchase at 5 years, the interest rate most relevant to the management of Pool A is the 5-year Treasury bond.
2016, continued to show great confidence in equity markets. They hedged their bets, though, keeping money in the bond markets to minimize their risk exposure, should the effects of a global slowdown be felt stateside. This, along with The Fed slowing rate hikes and unwinding its balance sheet (see below), created the climate that pushed yields lower. Currently, it appears as though a floor of just below 2.20% has been established for 5-year yields. That could be subject to change, however, since The Fed has not ruled out dropping rates if data should suggest that is the correct action.

Chair Powell continues to see a strong economy that has room to expand and used recent expansion as a means to unwind a good portion of The Fed’s balance sheet (selling treasury bonds it had purchased during the great recession in order to inject more cash into the system), releasing a lot more fixed income supply into the markets. This added supply, along with stagnant inflation and other market forces, acted to push yields lower across all but the shortest terms. Short-term rates continued to rise, leading to an inverted yield curve. Yields from one month to six months jumped above those for longer term issues, creating about a 21 basis point spread between 6-month and 5-year yields on March 31, 2019.

An inverted yield curve normally is the precursor to a recession. The lag time between the inversion and economic slowdown is usually between six and eighteen months. The recession does not always follow, though, and Chair Powell, along with other Fed governors, believe this is one of the occasions where the recession will not follow the inversion. Powell has pointed out that rising inflation has been present in prior cases when there was a recession and that is not the case now. Most other economic indicators point to a position of strength for the United States (particularly when compared to the rest of the world). Powell believes that the natural slowing of economic expansion that began in November of 2016, combined with the paring of The Fed’s balance sheet, has created an environment that caused the yield curve to invert. He also believes that the inversion will be short term and will not lead to a recession, because data shows that the economy remains strong in almost every area, leading to continued consumer confidence and a climate where there will continue to be expansion, albeit at a slower pace than we have seen over the past 28 months.

Investment staff has made some adjustments to its strategy for making discretionary investments. Shorter term issues are being targeted as a way to take advantage of their better returns. These investments fall in line with investing to cover city cash obligations such as payroll and debt service, including those costs associated with the current Convention Center project.

The City’s Pool A

City Treasurer investment staff has structured its investments by purchasing high quality fixed income instruments (1) to meet the near term cash needs of the City with a portion of the pool, and (2) positioning the remainder to generate interest income on the balance of the pool based on prevailing rates and by anticipating a gradual increase in rates through the investment in variable rate instruments.
Accordingly, Pool A investments can be grouped into two categories: **Liquidity Investments** that mature inside of one year and are generally intended to provide a supply of cash to meet the near term cash flow needs of the City and other pool participants; and **Core Investments** that are purchased with the intent to gain yield, while not sacrificing safety and liquidity. As of the close of the last fiscal year, Liquidity Investments comprise 44% of Pool A and 56% are Core Investments.

Because of the inverted yield curve, short-term Liquidity Investments currently yield more than the Core portion (2.61% vs. 2.43% - as of 3/31/19). This is a boost to the portfolio, since these investments are geared to cover cash flow needs six to eight months into the future. In essence, investment staff has created a constant 6 to 8-month ladder of investments that immediately captures additional revenue from any uptick in short term rates. See the below chart of 2-year Treasury yields that shows a similar shape to the 5-year yields. Then, compare it to the chart that follows for 6-month yields. The 6-Month Curve reached its peak in the fall, as did the other two curves, but did not fall off heading into winter. It plateaued and maintained its level as the actions of The Fed began to shape markets. As the yield on Liquidity Investments increased to the current level of 2.61% and the investment team added more short-term investments to the portfolio, the yield for all of Pool A rose in tandem. In sum, the active management of Pool A investments supporting the City’s and pool participants’ cash needs takes more effort than simply creating a template and sticking to it. Adjusting the makeup of the portfolio to take advantage of the inverted yield curve has led to better performance while also maintaining the liquidity necessary to cover all of the cash needs of the city and other participants in the pool.
For FY 2018, Pool A yielded 1.77% across both Liquidity and Core Investments. As the market has changed and the investment team had adjusted, the performance of Pool A during FY 2019 has increased across both Liquidity and Core Investments. The portfolio began the fiscal year by yielding 2.12% (July 2018) and has since tracked upward to a 2.63% yield for February 2019. This level of investment return is noteworthy in the economy’s (still) low-interest rate environment, particularly for a portfolio consisting of securities maturing in less than 5 years, and with a substantial portion of the pool maturing inside of one year. In relative terms, Pool A returns consistently outperform municipal pools of California cities with population sizes similar to Sacramento. While much of this success is attributable to the City’s commitment to maintain a staff of full-time investment officers, the adoption of investment policies making the full panoply of investment vehicles allowed under the Government Code available to investment staff also plays a critical role in driving returns. We are seeing that the structure of the pool's investments is enhancing yield as the economy navigates through an environment with an inverted Yield Curve.

Primary Investment Policy Provisions

Two of the key portions of the Investment Policy concern (1) the overriding priorities in the management of City’s pooled funds and (2) the eligible investments purchased with such funds. The Investment Policy adopts provisions of California Government Code statutes that address each portion (Government Code sections 53600.5 and 53601 (and related provisions), respectively.) The concepts are integral to each other, with each playing a role in every investment and cash management decision made in managing
The fundamental and overriding objectives of both the City’s Investment Policy and state law are, in order of priority:

1. **Protection of principal** – City funds are placed in secure investments such as government bonds, solid short-term instruments, highly-rated corporate bonds, obligations of the State of California and other quality municipal bonds.

2. **Liquidity** – The management of Pool A, including the maturity of individual investments, are selected so that sufficient cash is always available to cover the City’s expenditure obligations without being forced to liquidate existing holdings to pay its bills.

3. **Yield** – The investment of Pool A shall generate some yield, or investment income. Importantly, the generation of yield is the third-level goal below safety and cash availability. In general, bond yields are lower for high credit quality bonds and for short maturity investments. As such, the yield generated is commensurate with policies relating to preservation of principal and the need to have cash available when needed.

While the Investment Policy adopts the types of investment vehicles authorized by state law, the purchase of any given security can only be made if it satisfies the objectives of safety, availability of funds, and yield. Each decision made in this regard must also satisfy the general prudent person standard (Government Code section 53600.3). Investment staff also engages in bond trading and swaps where it is advantageous to do so, e.g. realization of capital gains and/or enhancement of yield.

In practice, investments can only be purchased after it is first determined whether there is any cash available to be invested. This cash flow-based determination is made on a daily basis, looking not only at the day’s cash needs to cover expenses due on that day, but also future dates on which the City’s obligations come due, e.g. anticipated presentation of large checks issued by the City, payroll dates every two weeks and debt service payment dates. The cash management by Treasurer’s investment staff pay homage to the liquidity objective of the Investment Policy.

Once it is determined that the City's immediate and near-term cash needs are met, then specific securities that are authorized by the Investment Policy are reviewed for opportunities to provide a return to the pools while maintaining safety of principal.

The Investment Policy provides the City, acting through the City Treasurer, with the flexibility to make cash management and investment decisions in a prudent, effective and efficient manner day in and day out.
Continuation of Prior Approved Policy

The Investment Policy was last approved by the Council on July 31, 2018, by Resolution No. 2018-0302. There are minor changes to section II(B)(2) of the Investment Policy approved by Resolution No. 2018-0302. Both a redline and clean version of the proposed Investment Policy is attached as Exhibit A to the accompanying Resolution.

Delegation of Investment Authority

Section 73 of the Sacramento City Charter vests the City Treasurer with authority to deposit and invest funds of the City treasury, subject to the annual delegation of investment authority from the City Council to the City Treasurer pursuant to Government Code section 53607. In accordance with Government Code section 53607, the City Treasurer recommends that the City Council delegate to the City Treasurer the authority and responsibility of investing funds held in the City’s pooled treasury funds for the next twelve months. Such action will allow the City Treasurer and his staff to continue the prudent investment of the City’s pooled treasury funds and the effective and efficient support of the City’s efforts to meet its cash flow needs.
Exhibit A

CITY OF SACRAMENTO
INVESTMENT POLICY

The purpose of this document is to set forth the investment and operational policies for the management of the public funds of the City of Sacramento. These policies are designed to ensure the prudent management of public funds under management by the Sacramento City Treasurer.

Although the Sacramento City Charter generally provides the City Treasurer with the authority to deposit and invest funds in the City Treasury, undertaking of the investment activities by the City Treasurer is subject to the annual delegation of investment authority from the City Council as the body being primarily responsible for the investment of City funds. Accordingly, these policies are applicable to the management of City treasury funds as that task may be delegated to the City Treasurer.

A copy of this policy statement will be provided to all investment brokers and dealers and others in related fields doing business with the City of Sacramento, and will be provided to other interested parties on request. In addition, this policy statement will be posted to the City Treasurer’s page of the City’s internet website.

An entity retained to provide investment-related services to the City of Sacramento shall not render services unless and until it confirms, in writing, that it has received and reviewed this policy statement, and is prepared to implement its terms, as applicable to the services to be provided by the entity.

I. Governing Authority; Scope

Section 73 of the Sacramento City Charter vests the City Treasurer with authority to deposit and invest funds of the City treasury, subject to the annual delegation of investment authority from the City Council to the City Treasurer pursuant to Government Code section 53607. These policies shall apply to the City Treasurer’s investment of City treasury funds.

The City Treasurer investment program for all treasury funds shall be operated in conformance with applicable federal, state, and other legal requirements. This policy statement is intended to conform to Government Code sections 53600, et seq, and interpretation of these policies shall be consistent with those statutes.

II. Objectives

A. Primary Objectives

The primary objectives of investment activities, in order of priority, are safety, liquidity, and yield:

1. Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective is to mitigate credit risk and interest rate risk.
(a) Credit Risk. Credit risk is the risk of loss due to the failure of the security issuer or backer. The City will minimize credit risk by:

(i) Limiting investments to the types of securities listed in Section VI of this Investment Policy

(ii) Re-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business in accordance with Section IV.

(iii) Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

(b) Interest Rate Risk. Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The City will minimize interest rate risk by:

(i) Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity

(ii) Investing operating funds primarily in shorter-term securities, money market mutual funds, the Local Agency Investment Fund (“LAIF”) managed by the State of California, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy.

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or LAIF which offer same day liquidity for short-term funds.

The staff of the City Treasurer’s Office shall (i) monitor the City’s budget formation and approval process and (ii) actively engage with City staff to assess and manage cash flow needs of the City.

3. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the low level of risk being assumed.

Securities shall generally be held until maturity with the following exceptions:

(a) A security with declining value may be sold early to minimize loss of principal.
(b) A security swap would improve the quality, yield, or target duration in the portfolio.

(c) Liquidity needs of the portfolio require that the security be sold.

(d) Where the sale of the security to realize capital gains is advisable in the judgment of the investment officers.

B. Other Objectives

1. Pooling of Funds

Except for cash in certain restricted and special funds, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds proportionately based on their respective participation and in accordance with generally accepted accounting principles. The pooling of funds shall have no effect on the legal character of the pooled funds, i.e. funds whose use is restricted by law shall remain restricted and cannot be used as part of the City’s general fund.

2. Local Considerations/Community Investments

Where possible, as a secondary objective, funds may be invested for the betterment of the local economy. The City Treasurer may accept a proposal from an “eligible local community institution” that provides for a reduced rate of interest provided that such institution documents the use of deposited funds for local community development projects. To qualify as an “eligible local community institution”, the following criteria must be met:

- An eligible local community institution is defined as being headquartered in counties in and around Sacramento, including but not limited to Placer, El Dorado, Sutter, and Yolo.

- To be recognized as an eligible local community institution the entity must have had a 5 star “Superior” Rating from either Bauer Financial or IDC Financial Publishing for the past 4 consecutive quarters. Eligible institutions must submit their quarterly ratings to the City Treasurer’s office and maintain their 5-star rating continuously. If an eligible local community institution drops below the required 5-star rating, they will have 1 quarter to cure the deficiency. If in the following quarter the institution does not re-achieve a 5-star rating with the same independent rating company, the City may withdraw funds allocated to that institution.

- Institutions who receive deposits from the City as part of a local community investment not eligible for FDIC insurance must be secured by collateral of 110% as described in California Government Code Section 53651 and 53652.

- Institutions who receive deposits from the City as part of a local community investment must commit to invest 50% of the deposits in the local community, within the City of Sacramento City limits.
• Institutions must provide a detailed semi-annual report to the City Treasurer’s Office that shows evidence that the institution is meeting the 50% local community investment mandate on the City’s deposits. If an institution cannot provide evidence that it has met the 50% local community investment criteria, the City may withdraw its deposits from the institution.

• As a matter of prudence, the amount the City Treasurer may invest in eligible local community institutions will be limited to 2% of the institution’s total assets, as determined by the quarterly independent financial reports. If, during the course of an investment with an eligible local institution, the City exceeds the maximum 2% deposit level, the City may withdraw any funds in excess of the limit to cure the deficiency.

• The city may place deposits with eligible local community institutions up to a total of 7.5% of the total in the City’s portfolio. If this amount is exceeded the City may withdraw funds from any institution to reduce the total community investment back below the maximum.

Although an eligible local community institution may meet all of the above stated criteria, it is not a guarantee that the City will maintain deposits. The City Treasurer retains the right to make deposit and withdrawal decisions based on the Primary Objectives of the Investment Policy stated above.

3. Favored Investments

Investments are encouraged in entities that have demonstrated significant commitment and cooperation (a) with foreclosure prevention efforts, including, without limitation, temporary moratoriums on foreclosures, renegotiation of the principle mortgage balances to reflect current values, and other good faith negotiations with homeowners in regard to delinquent mortgages, and/or (b) in offering free or low-cost banking services to low- and moderate-income residents who are part of the traditionally “unbanked” or “under-banked” population. The City Treasurer may take into consideration the level of effort an entity expends in either the foreclosure relief or community banking areas, or both, when considering competing investments. If the City Treasurer is satisfied with the record of an entity in regard to such efforts, then the Treasurer’s investment staff may invest in the securities of the entity, provided that the investment is otherwise consistent with the requirements of this Investment Policy statement.

III. Standards of Care

A. Prudence

In accordance with Government Code section 53600.3, the standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures developed by the City Treasurer and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided extraordinary deviations from expectations are reported by subordinate investment officers to the City
Treasurer in a prompt fashion and that the sale of securities is carried out in accordance with the terms of this policy.

Pursuant to the "prudent person" standard, investment officers 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. Funds shall be managed not for speculation where the sole goal of a transaction is to increase principal balances, but for investment intended to earn a reasonable rate of return on invested funds, considering the probable safety of their capital as well as the probable income to be derived. Despite that investment transactions are undertaken with care pursuant to the “prudent person” standard, it is recognized that invested funds are subject to the vagrancies of the markets beyond the control of the investment officers.

B. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and investment officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

Investment officers shall file State Fair Political Practices Commission’s Statement of Economic Interests and make the disclosures required by the City’s conflict of interest policies.

C. Delegation of Authority

Authority to manage the City treasury investment program is granted to the City Treasurer pursuant to Sacramento City Charter section number 73, unless the Charter specifically indicates otherwise, subject to annual delegation of investment authority by the City Council pursuant to Government Code section 53607. Pursuant to the City Charter, the City Treasurer also is authorized to appoint deputies and employees, as prescribed by Council resolution, to implement the investment program. The City Treasurer and those employees appointed by the Treasurer to perform investment activities pursuant to these policies shall be referred to herein collectively as “investment officers.”

Investment officers shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy (“Investment Procedures Manual”). Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures manual. The investment officers shall be responsible for all transactions undertaken and shall establish a system of controls to regulate their activities.

IV. Authorized Financial Institutions, Depositories, and Broker/Dealers
A. Selection

Financial institutions and depositories involved in implementing the City Treasurer’s investment activities are selected on a competitive basis in order to obtain high quality services by reliable, reputable and stable entities. The competitive process may be formal or informal, as determined by the City Treasurer in his or her discretion, with the objective of obtaining the quality of services necessary to serve the best interests of the City and relevant stakeholders, with services performed at competitive fees and rates. Such processes may occur from time to time by the City Treasurer’s Office whether at the time the City Treasurer contracts for the general banking services or otherwise. The firm or firms providing investment-related services may or may not be, at the discretion of the City Treasurer, the same firm providing general banking services. Among the factors that the City Treasurer may consider in obtaining such services are (i) minimum qualifications pertaining to capacity, satisfaction of requirements to conduct required business, i.e. licenses, permits, registrations, certifications, etc.; (ii) capitalization; (iii) insurance and bonding; (iv) safekeeping and custodial experience; (v) status in good standing; (vi) ability and capacity of the firm to provide a full range of services as may be required by the City Treasurer; (vii) extent of the value added by an entity over the services provided by firms then-providing investment-related services to the City Treasurer’s Office; and (viii) other attributes as may be determined by the City Treasurer from time to time. The City Treasurer may determine the number and nature of firms to be retained to provide investment-related services based upon the volume of existing and projected investment work. Those firms that are selected to execute transactions on behalf of the City shall do so in a good faith manner and in the best interests of the City, and shall disclose to and advise the investment officers of material facts that bear upon the pricing of a given transaction order given by investment officers. All financial institutions executing investment transactions shall satisfy the requirements of Government Code section 53601.5. All depositories shall satisfy the institutional qualifications and security requirements described in Government Code sections 53648 et seq.

B. Performance Review

All financial institutions and depositories shall maintain the qualifications and attributes deemed appropriate by the City Treasurer, including, but not limited to those enumerated in subsection A above, and shall perform their duties in a satisfactory manner. The City Treasurer, at his or her discretion, shall conduct periodic performance reviews to ensure the institutions and depositories are providing services in the best interests of the City.

V. Safekeeping and Custody

A. Delivery vs. Payment

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

B. Safekeeping

Securities will be held by an independent third-party custodian selected by the City Treasurer. The inventory and value of cash and securities held by the custodian will be reconciled on a daily basis. The custodial institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).
C. **Internal Controls, Investment Procedures Manual**

The City Treasurer is responsible for establishing and maintaining an internal control structure designed to guide the activities of the investment officers to ensure that the assets of the City are protected from loss, theft or misuse. Details of the internal controls system shall be documented in the Investment Procedures Manual and shall be reviewed and updated annually, as needed. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management. The internal controls structure shall address the following points:

1. Prevention of collusion
2. Separation of transaction authority from accounting and recordkeeping
3. Custodial safekeeping
4. Avoidance of physical delivery securities
5. Clear delegation of authority to subordinate staff members
6. Written confirmation of transactions for investments and wire transfers
7. Development of a wire transfer agreement with the lead bank and third-party custodian

Accordingly, the City Treasurer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures or alternatively, compliance should be assured through the City annual independent audit.

VI. **Suitable and Authorized Investments**

A. **Investment Types**

Allowable investments of funds not required for the immediate use by the City are limited to those described in Government Code sections 16429.1 (Local Agency Investment Fund), 53601 (investment of surplus), 53601.8 (certificates of deposit), 53635 (purchase of commercial paper by pools) and 53638 (bank deposits), as such statutes may be amended or renumbered from time to time. These allowable investments, and their permitted amounts and attributes, are set forth in a summary prepared and updated from time to time by the California Debt and Investment Advisory Commission (“CDIAC”) entitled, “Allowable Investment Instruments Per State Government Code, Applicable To All Local Agencies,” included CDIAC’s “Local Agency Investment Guidelines” publication that may be located at [http://www.treasurer.ca.gov/cdiac/LAIG/guideline.pdf](http://www.treasurer.ca.gov/cdiac/LAIG/guideline.pdf)

B. **Extended Maturities**

The investment officers will observe the maximum maturity term of five years on various of the
allowable investments. However, where a particular investment is found by the investment officers to be advantageous and consistent with these policies, but for a nominal exceedance of a 5-year maximum maturity caused by effect of the security’s issuance and maturity dates, or the settlement date of the transaction, or both, they are authorized to invest in the following obligations with remaining maturities of five (5) years, plus not more than thirty (30) calendar days: U.S. Treasury obligations, obligations of California or other states, California local agency obligations, U.S. Agency obligations and medium-term notes. The City Treasurer will provide notice to the City Council of such investments within periodic investment reports made to the Council. See, Section VIII.A. Pursuant to Government Code section 53601, investment officers shall not make investments in instruments with maturities longer than five (5) years, plus thirty (30) calendar days, without prior approval of the City Council.

C. Securities Lending

The investment officers at their discretion may engage in securities lending activities pursuant to securities lending agreements (as defined in Government Code section 53601(j)(5)(D)) provided that the following are satisfied:

1. Securities lending transactions are to be governed by agreements entered into by the City Treasurer and the agent or agents the City Treasurer engages to perform such transactions provided that such agreements
   
   (a) comply with the requirements of Government Code section 53601(j), and
   
   (b) require the payment of cash collateral equal to or greater than 102% of the market value of the loaned security at the time of the loan.

2. The securities lending agreements may allow for the use of cash collateral for the reinvestment in securities that

   (a) comply with the requirements of Government Code section 53601(j)(3)(D), and
   
   (b) are securities whose direct investment is authorized by Government Code section 53601 and these policies,

   (c) provided that nothing herein shall preclude the City Treasurer from entering into securities lending agreements that reduces the scope of investments made with cash collateral to something less than that allowed under subsections (a) and (b) above.

VII. Investment Parameters

A. Diversification

The City shall diversify its investment portfolio. To minimize risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or type of securities, all cash and cash equivalent assets in all City funds shall be diversified by maturity, issuer, and class of security. Diversification strategies shall be determined and revised on an ongoing basis by the investment officers for all funds covered by these investment policies. In establishing specific diversification strategies, these investment
policies shall apply. The investment officers shall emphasize that portfolio maturities will be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.

B. Cash Management Funds

1. Liquidity shall be assured through practices ensuring that the payroll dates and dates of large disbursements are covered through maturing investments or marketable U.S. Treasury bills.

2. Positions in securities having potential default risk shall be limited in size pursuant to the maximum limits set forth in Government Code section 53601. See Attachment A. Such securities include the following: Commercial paper; negotiable certificates of deposit, and Banker’s Acceptances.

3. Risks of market price volatility shall be controlled through maturity diversification.

4. Liquidity risk: Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as LAIF, money market funds, overnight repurchase agreements, and/or marketable securities that can be sold to raise cash in one day’s notice, to ensure that appropriate liquidity is maintained to meet ongoing obligations.

C. Competitive Bids

The investment officers shall obtain competitive bids from at least two brokers or financial institutions on all purchases and sales of investment instruments executed on the secondary market for consideration in excess of $15 million per purchase transaction.

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A. Investment Reports

The City Treasurer shall present to the City Council, the City Manager and the City’s internal auditor monthly investment reports that include the transactions as required by Government Code section 53607.

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For purposes of preparation of the investment reports, the market value of the portfolio shall be calculated. In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

C. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within
this statement of policies. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken.

IX. Policy Considerations

A. Exemption

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy, provided that the City Treasurer may take steps he or she deems appropriate to address non-compliant investments in the best interest of the City and pool participants. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

B. Amendments

This policy shall be reviewed annually by the investment officers. Any change must be approved by the City Treasurer, followed by review and consideration by the City Council pursuant to Section X of these policies.

X. City Council Consideration of Investment Policy

This policy shall be reviewed and considered by the City Council on an annual basis pursuant to Government Code section 53646(a)(2).

XI. Miscellaneous

A. Statutory References

All statutory references cited in these policies shall refer to the statute as it may be amended or renumbered from time to time.
RESOLUTION NO. 2019-XXXX

Adopted by the Sacramento City Council
June 25, 2019

APPROVING THE INVESTMENT POLICY GOVERNING THE INVESTMENT OF CITY’S POOLED TREASURY FUNDS AND DELEGATING INVESTMENT AUTHORITY TO THE CITY TREASURER

BACKGROUND

A. Sound investment practices are facilitated by the preparation of written governing policy statements. Such policies should cover all substantive aspects of the investment of funds. The City Treasurer has prepared a comprehensive Investment Policy document pursuant to which the City, acting through his office, will manage and conduct investment of the City’s pooled treasury funds. The Investment Policy is attached hereto as Exhibit A.

B. In furtherance of the prudent management of the City’s treasury pools, the Investment Policy is in compliance with State law provisions establishing investment objectives and setting forth permissible investment of public funds not required for immediate expenditure.

C. Section 73 of the Sacramento City Charter vests the City Treasurer with authority to deposit and invest funds of the City treasury, subject to the annual delegation of investment authority from the City Council to the City Treasurer pursuant to state law.

D. The delegation of investment authority and responsibility from the City Council to the City Treasurer will allow the City Treasurer and his staff to continue the prudent investment of the City’s pooled treasury funds and the effective and efficient support of the City’s efforts to meet its cash flow needs.

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

Section 1. The Investment Policy submitted by the City Treasurer, attached hereto as Exhibit A, is hereby approved.

Section 2. The City Council, pursuant to Government Code section 53607, delegates to the City Treasurer for a period of twelve (12) months the authority to invest the City’s pooled treasury funds in accordance with the Investment Policy.

Section 3. Exhibit A is part of this resolution.
The purpose of this document is to set forth the investment and operational policies for the management of the public funds of the City of Sacramento. These policies are designed to ensure the prudent management of public funds under management by the Sacramento City Treasurer.

Although the Sacramento City Charter generally provides the City Treasurer with the authority to deposit and invest funds in the City Treasury, undertaking of the investment activities by the City Treasurer is subject to the annual delegation of investment authority from the City Council as the body being primarily responsible for the investment of City funds. Accordingly, these policies are applicable to the management of City treasury funds as that task may be delegated to the City Treasurer.

A copy of this policy statement will be provided to all investment brokers and dealers and others in related fields doing business with the City of Sacramento, and will be provided to other interested parties on request. In addition, this policy statement will be posted to the City Treasurer’s page of the City’s internet website.

An entity retained to provide investment-related services to the City of Sacramento shall not render services unless and until it confirms, in writing, that it has received and reviewed this policy statement, and is prepared to implement its terms, as applicable to the services to be provided by the entity.

I. Governing Authority; Scope

Section 73 of the Sacramento City Charter vests the City Treasurer with authority to deposit and invest funds of the City treasury, subject to the annual delegation of investment authority from the City Council to the City Treasurer pursuant to Government Code section 53607. These policies shall apply to the City Treasurer’s investment of City treasury funds.

The City Treasurer investment program for all treasury funds shall be operated in conformance with applicable federal, state, and other legal requirements. This policy statement is intended to conform to Government Code sections 53600, et seq, and interpretation of these policies shall be consistent with those statutes.

II. Objectives

A. Primary Objectives

The primary objectives of investment activities, in order of priority, are safety, liquidity, and yield:

1. Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective is to mitigate credit risk and interest rate risk.
(a) Credit Risk. Credit risk is the risk of loss due to the failure of the security issuer or backer. The City will minimize credit risk by:

(i) Limiting investments to the types of securities listed in Section VI of this Investment Policy

(ii) Re-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business in accordance with Section IV.

(iii) Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

(b) Interest Rate Risk. Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The City will minimize interest rate risk by:

(i) Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity

(ii) Investing operating funds primarily in shorter-term securities, money market mutual funds, the Local Agency Investment Fund (“LAIF”) managed by the State of California, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy.

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or LAIF which offer same day liquidity for short-term funds.

The staff of the City Treasurer’s Office shall (i) monitor the City’s budget formation and approval process and (ii) actively engage with City staff to assess and manage cash flow needs of the City.

3. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the low level of risk being assumed.

Securities shall generally be held until maturity with the following exceptions:

(a) A security with declining value may be sold early to minimize loss of principal.
(b) A security swap would improve the quality, yield, or target duration in the portfolio.

(c) Liquidity needs of the portfolio require that the security be sold.

(d) Where the sale of the security to realize capital gains is advisable in the judgment of the investment officers.

B. Other Objectives

1. Pooling of Funds

Except for cash in certain restricted and special funds, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds proportionately based on their respective participation and in accordance with generally accepted accounting principles. The pooling of funds shall have no effect on the legal character of the pooled funds, i.e. funds whose use is restricted by law shall remain restricted and cannot be used as part of the City’s general fund.

2. Local Considerations/Community Investments

Where possible, as a secondary objective, funds may be invested for the betterment of the local economy. The City Treasurer may accept a proposal from an “eligible local community institution” that provides for a reduced rate of interest provided that such institution documents the use of deposited funds for local community development projects. To qualify as an “eligible local community institution”, the following criteria must be met:

- An eligible local community institution is defined as being headquartered in counties in and around Sacramento, including but not limited to Placer, El Dorado, Sutter, and Yolo.

- To be recognized as an eligible local community institution the entity must have had a 5 star “Superior” Rating from either Bauer Financial or IDC Financial Publishing for the past 4 consecutive quarters. Eligible institutions must submit their quarterly ratings to the City Treasurer’s office and maintain their 5-star rating continuously. If an eligible local community institution drops below the required 5-star rating, they will have 1 quarter to cure the deficiency. If in the following quarter the institution does not re-achieve a 5-star rating with the same independent rating company, the City may withdraw funds allocated to that institution.

- Institutions who receive deposits from the City as part of a local community investment not eligible for FDIC insurance must be secured by collateral of 110% as described in California Government Code Section 53651 and 53652.

- Institutions who receive deposits from the City as part of a local community investment must commit to invest 50% of the deposits in the local community, within the City of Sacramento City limits.
• Institutions must provide a detailed semi-annual report to the City Treasurer’s Office that shows evidence that the institution is meeting the 50% local community investment mandate on the City’s deposits. If an institution cannot provide evidence that it has met the 50% local community investment criteria, the City may withdraw its deposits from the institution.

• As a matter of prudence, the amount the City Treasurer may invest in eligible local community institutions will be limited to 2% of the institution’s total assets, as determined by the quarterly independent financial reports. If, during the course of an investment with an eligible local institution, the City exceeds the maximum 2% deposit level, the City may withdraw any funds in excess of the limit to cure the deficiency.

• The city may place deposits with eligible local community institutions up to a total of 7.5% of the total in the City’s portfolio. If this amount is exceeded the City may withdraw funds from any institution to reduce the total community investment back below the maximum.

Although an eligible local community institution may meet all of the above stated criteria, it is not a guarantee that the City will maintain deposits. The City Treasurer retains the right to make deposit and withdrawal decisions based on the Primary Objectives of the Investment Policy stated above.

3. Favored Investments

Investments are encouraged in entities that have demonstrated significant commitment and cooperation (a) with foreclosure prevention efforts, including, without limitation, temporary moratoriums on foreclosures, renegotiation of the principle mortgage balances to reflect current values, and other good faith negotiations with homeowners in regard to delinquent mortgages, and/or (b) in offering free or low-cost banking services to low- and moderate-income residents who are part of the traditionally “unbanked” or “under-banked” population. The City Treasurer may take into consideration the level of effort an entity expends in either the foreclosure relief or community banking areas, or both, when considering competing investments. If the City Treasurer is satisfied with the record of an entity in regard to such efforts, then the Treasurer’s investment staff may invest in the securities of the entity, provided that the investment is otherwise consistent with the requirements of this Investment Policy statement.

III. Standards of Care

A. Prudence

In accordance with Government Code section 53600.3, the standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures developed by the City Treasurer and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided extraordinary deviations from expectations are reported by subordinate investment officers to the City Treasurer in a prompt fashion and that the sale of securities is carried out in accordance with the terms of this policy.
Pursuant to the "prudent person" standard, investment officers 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. Funds shall be managed not for speculation where the sole goal of a transaction is to increase principal balances, but for investment intended to earn a reasonable rate of return on invested funds, considering the probable safety of their capital as well as the probable income to be derived. Despite that investment transactions are undertaken with care pursuant to the “prudent person” standard, it is recognized that invested funds are subject to the vagrancies of the markets beyond the control of the investment officers.

B. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and investment officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

Investment officers shall file State Fair Political Practices Commission's Statement of Economic Interests and make the disclosures required by the City’s conflict of interest policies.

C. Delegation of Authority

Authority to manage the City treasury investment program is granted to the City Treasurer pursuant to Sacramento City Charter section number 73, unless the Charter specifically indicates otherwise, subject to annual delegation of investment authority by the City Council pursuant to Government Code section 53607. Pursuant to the City Charter, the City Treasurer also is authorized to appoint deputies and employees, as prescribed by Council resolution, to implement the investment program. The City Treasurer and those employees appointed by the Treasurer to perform investment activities pursuant to these policies shall be referred to herein collectively as “investment officers.”

Investment officers shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy (“Investment Procedures Manual”). Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures manual. The investment officers shall be responsible for all transactions undertaken and shall establish a system of controls to regulate their activities.

IV. Authorized Financial Institutions, Depositories, and Broker/Dealers

A. Selection
Financial institutions and depositories involved in implementing the City Treasurer’s investment activities are selected on a competitive basis in order to obtain high quality services by reliable, reputable and stable entities. The competitive process may be formal or informal, as determined by the City Treasurer in his or her discretion, with the objective of obtaining the quality of services necessary to serve the best interests of the City and relevant stakeholders, with services performed at competitive fees and rates. Such processes may occur from time to time by the City Treasurer’s Office whether at the time the City Treasurer contracts for the general banking services or otherwise. The firm or firms providing investment-related services may or may not be, at the discretion of the City Treasurer, the same firm providing general banking services. Among the factors that the City Treasurer may consider in obtaining such services are (i) minimum qualifications pertaining to capacity, satisfaction of requirements to conduct required business, i.e. licenses, permits, registrations, certifications, etc.; (ii) capitalization; (iii) insurance and bonding; (iv) safekeeping and custodial experience; (v) status in good standing; (vi) ability and capacity of the firm to provide a full range of services as may be required by the City Treasurer; (vii) extent of the value added by an entity over the services provided by firms then-providing investment-related services to the City Treasurer’s Office; and (viii) other attributes as may be determined by the City Treasurer from time to time. The City Treasurer may determine the number and nature of firms to be retained to provide investment-related services based upon the volume of existing and projected investment work. Those firms that are selected to execute transactions on behalf of the City shall do so in a good faith manner and in the best interests of the City, and shall disclose to and advise the investment officers of material facts that bear upon the pricing of a given transaction order given by investment officers. All financial institutions executing investment transactions shall satisfy the requirements of Government Code section 53601.5. All depositories shall satisfy the institutional qualifications and security requirements described in Government Code sections 53648 et seq.

B. **Performance Review**

All financial institutions and depositories shall maintain the qualifications and attributes deemed appropriate by the City Treasurer, including, but not limited to those enumerated in subsection A above, and shall perform their duties in a satisfactory manner. The City Treasurer, at his or her discretion, shall conduct periodic performance reviews to ensure the institutions and depositories are providing services in the best interests of the City.

V. **Safekeeping and Custody**

A. **Delivery vs. Payment**

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

B. **Safekeeping**

Securities will be held by an independent third-party custodian selected by the City Treasurer. The inventory and value of cash and securities held by the custodian will be reconciled on a daily basis. The custodial institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

C. **Internal Controls, Investment Procedures Manual**
The City Treasurer is responsible for establishing and maintaining an internal control structure designed
to guide the activities of the investment officers to ensure that the assets of the City are protected from
loss, theft or misuse. Details of the internal controls system shall be documented in the Investment
Procedures Manual and shall be reviewed and updated annually, as needed. The internal control
structure shall be designed to provide reasonable assurance that these objectives are met. The concept
of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to
be derived and (2) the valuation of costs and benefits requires estimates and judgments by
management. The internal controls structure shall address the following points:

1. Prevention of collusion
2. Separation of transaction authority from accounting and recordkeeping
3. Custodial safekeeping
4. Avoidance of physical delivery securities
5. Clear delegation of authority to subordinate staff members
6. Written confirmation of transactions for investments and wire transfers
7. Development of a wire transfer agreement with the lead bank and third-party custodian

Accordingly, the City Treasurer shall establish a process for an annual independent review by an external
auditor to assure compliance with policies and procedures or alternatively, compliance should be
assured through the City annual independent audit.

VI. Suitable and Authorized Investments

A. Investment Types

Allowable investments of funds not required for the immediate use by the City are limited to those
described in Government Code sections 16429.1 (Local Agency Investment Fund), 53601 (investment of
surplus), 53601.8 (certificates of deposit), 53635 (purchase of commercial paper by pools) and 53638
(bank deposits), as such statutes may be amended or renumbered from time to time. These allowable
investments, and their permitted amounts and attributes, are set forth in a summary prepared and
updated from time to time by the California Debt and Investment Advisory Commission (“CDIAC”)
entitled, “Allowable Investment Instruments Per State Government Code, Applicable To All Local
Agencies,” included CDIAC’s “Local Agency Investment Guidelines” publication that may be located at
http://www.treasurer.ca.gov/cdiac/LAIG/guideline.pdf

B. Extended Maturities

The investment officers will observe the maximum maturity term of five years on various of the
allowable investments. However, where a particular investment is found by the investment officers to
be advantageous and consistent with these policies, but for a nominal exceedance of a 5-year maximum
maturity caused by effect of the security’s issuance and maturity dates, or the settlement date of the transaction, or both, they are authorized to invest in the following obligations with remaining maturities of five (5) years, plus not more than thirty (30) calendar days: U.S. Treasury obligations, obligations of California or other states, California local agency obligations, U.S. Agency obligations and medium-term notes. The City Treasurer will provide notice to the City Council of such investments within periodic investment reports made to the Council. See, Section VIII.A. Pursuant to Government Code section 53601, investment officers shall not make investments in instruments with maturities longer than five (5) years, plus thirty (30) calendar days, without prior approval of the City Council.

C. Securities Lending

The investment officers at their discretion may engage in securities lending activities pursuant to securities lending agreements (as defined in Government Code section 53601(j)(5)(D)) provided that the following are satisfied:

1. Securities lending transactions are to be governed by agreements entered into by the City Treasurer and the agent or agents the City Treasurer engages to perform such transactions provided that such agreements
   
   (a) comply with the requirements of Government Code section 53601(j), and
   
   (b) require the payment of cash collateral equal to or greater than 102% of the market value of the loaned security at the time of the loan.

2. The securities lending agreements may allow for the use of cash collateral for the reinvestment in securities that
   
   (a) comply with the requirements of Government Code section 53601(j)(3)(D), and
   
   (b) are securities whose direct investment is authorized by Government Code section 53601 and these policies,
   
   (c) provided that nothing herein shall preclude the City Treasurer from entering into securities lending agreements that reduces the scope of investments made with cash collateral to something less than that allowed under subsections (a) and (b) above.

VII. Investment Parameters

A. Diversification

The City shall diversify its investment portfolio. To minimize risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or type of securities, all cash and cash equivalent assets in all City funds shall be diversified by maturity, issuer, and class of security. Diversification strategies shall be determined and revised on an ongoing basis by the investment officers for all funds covered by these investment policies. In establishing specific diversification strategies, these investment policies shall apply. The investment officers shall emphasize that portfolio maturities will be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for
stability of income and reasonable liquidity.

B. *Cash Management Funds*

1. Liquidity shall be assured through practices ensuring that the payroll dates and dates of large disbursements are covered through maturing investments or marketable U.S. Treasury bills.

2. Positions in securities having potential default risk shall be limited in size pursuant to the maximum limits set forth in Government Code section 53601. See Attachment A. Such securities include the following: Commercial paper; negotiable certificates of deposit, and Banker’s Acceptances.

3. Risks of market price volatility shall be controlled through maturity diversification.

4. Liquidity risk: Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as LAIF, money market funds, overnight repurchase agreements, and/or marketable securities that can be sold to raise cash in one day’s notice, to ensure that appropriate liquidity is maintained to meet ongoing obligations.

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