

**REPORT TO MAYOR AND COUNCIL****TO THE HONORABLE MAYOR AND COUNCIL:**

DATE: June 24, 2014

SUBJECT: CITY OF CONCORD INVESTMENT POLICY FY 2014-15**Report in Brief**

Annually, the City Council reviews and updates the City's Investment Policy to ensure compliance with the provisions of the California Government Code governing investment of public funds. Staff is proposing two (2) modifications to the Investment Policy as recommended by the City's investment advisor, Public Financial Management (PFM), and supported by the City's Treasurer and the City's Director of Finance.

Discussion

The investment of City funds is governed by California Code (Sections 53600-53610). Specifically, the Government Code prescribes the investment vehicles in which local agencies are permitted to invest available funds. Staff, working with the City's investment advisor, PFM, has completed a comprehensive review of the City's Investment Policy including compliance with relevant sections of the Government Codes, as well as, incorporating best investment practices as recommended by the Association of Public Treasurers of the US and Canada (APT US&C). The following recommended revisions have also been reviewed and endorsed by the City Treasurer and the City's Director of Finance.

Under Section 13.0 MAXIMUM MATURITIES:

Addition of the following: The City may not invest in a security whose maturity exceeds five years from the date of purchase unless City Council has provided approval for a specific purpose at least three months before the investment is made.

Under Section 15.0 REPORTING

First sentence amended to, "On at least a quarterly basis, the Treasurer shall render a report on monthly investment transactions to the City Council".

Fiscal Impact

There is no fiscal impact associated with the implementation of the Policy changes. The recommendations ensure the Policy conforms to California Government Code and complies with best practices designed to meet the City's short and long term cash flow needs by managing safety, liquidity and return on investments in a prudent manner.

Alternative Courses of Action

Approval of the Investment Policy by the Legislative body is not required by law but is a recommended best practice. The Council may request alterations be made to any section as long as the revisions meet the requirements of the State Code.

Recommendation for Action

Staff recommends that the City Council approve the City of Concord FY2014-15 Investment Policy.

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Attachment 1: City of Concord Investment Policy FY 2014-15

Attachment 2: City of Concord Investment Policy FY 2014-15 (red-line version)

**CITY OF CONCORD
INVESTMENT POLICY
2014/15**

1.0 POLICY

It is the policy of the City of Concord (“City”) to invest public funds in a manner which provides for safety of principal while providing sufficient liquidity to cover the City’s short and long term needs. All investment activity will conform to the California Government Code, Sections 53601 through 53659.

The Treasurer will annually render to the City Council a statement of investment policy.

2.0 SCOPE

This investment policy applies to all financial assets of the City as accounted for in the City of Concord’s Comprehensive Annual Financial Report. Policy statements included in this document focus on the City’s pooled funds, but will also apply to all other funds under the Treasurer’s control unless specifically exempted by statute or ordinance. This policy includes, but is not limited to the following funds:

- a. General Fund
- b. Agency Fund
- c. Enterprise Funds
- d. Capital Project Funds
- e. Debt Service Funds
- f. Internal Service Funds
- g. Special Revenue Funds
- h. Any new funds created by the City Council

This policy specifically exempts any bond proceed funds in the possession of a trustee or fiscal agent. These bond proceeds shall be invested in accordance with the requirements and restrictions outlined in the bond documents.

3.0 PRUDENCE

All persons authorized to make investment decisions for the City of Concord are trustees and therefore fiduciaries subject to the prudent investor standard.

The standard of prudence to be used by City of Concord fiduciaries is the “Prudent Investor” Standard found in the California Government Code Section 53600.3 and shall be applied in the context of managing the overall portfolio.

The Treasurer and other investment employees, acting within the intent and scope of the Investment Policy and other written procedures, and exercising due diligence, shall be relieved of personal responsibility for an individual security’s

credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

4.0 OBJECTIVE

The objective of the investment portfolio is to meet the City's short and long-term cash flow needs. To achieve this objective, the portfolio will be structured to provide, in priority order, safety of principal, liquidity and return on investment.

4.1 Safety

Safety of principal is the foremost objective of the City of Concord. All investments of the City shall be undertaken in a manner that ensures the preservation of capital in the overall portfolio. Each investment transaction shall seek to ensure that capital losses are avoided, whether from issuer or broker/dealer default. The City shall seek to preserve principal by mitigating the two types of risk: Credit risk and market risk.

4.1.1 Credit Risk

Credit risk is the risk of loss due to failure of the issuer to repay an obligation and shall be mitigated by investing in high quality credits, actively monitoring investments, and by diversifying the investment portfolio so that the failure of any one issuer would not unduly harm the City's cash flows.

4.1.2 Market Risk

Market risk is the risk of market value fluctuations due to overall changes in the general level of interest rates and shall be mitigated by limiting the duration of the portfolio. The duration of the total dollar value of funds invested in accord with this Investment Policy shall not exceed 3.5 years.

4.2 Liquidity

The City's investment portfolio will be structured to provide sufficient liquidity to meet the operating requirements of the City of Concord.

4.3 Return on Investment

State law requires that the objective of return on investment be subordinate to the objectives of safety and liquidity. Therefore, investment employees shall seek to achieve a return on the funds under their control throughout all economic cycles, taking into consideration the City of Concord's investment risk constraints and cash flow requirements. In evaluating the performance of the City's portfolio in complying with this

Policy, it is expected that the City shall establish an appropriate performance benchmark and compare the total return of its portfolio to the total return of the benchmark.

5.0 DELEGATION OF AUTHORITY

Pursuant to Section 53601 of the California Government Code, the City Council as the legislative body of the City of Concord has primary responsibility for the investment of surplus monies or monies held in sinking funds, in the City treasury. As authorized under Section 53607 of the California Government Code, the City Council hereby delegates its authority to invest or reinvest the funds of the City, and to sell or exchange securities so purchased, to the City Treasurer who shall assume full responsibility for all such transactions until such time as this delegation of authority may be revoked by the City Council.

Within the Finance Department, the responsibility of day-to-day treasury activities and investment of City funds is delegated by the City Treasurer to the Treasury Manager. In the absence of the Treasury Manager, the Treasury Technician, and the Treasury Account Clerk III, are deputized to act on his/her behalf. Investments made by the Treasury Technician and the Account Clerk III will be restricted to the State Pool (LAIF). The City Treasurer shall establish investment policy guidelines in writing within which the Treasury Manager shall operate day-to-day investment activities. Delegation of Authority will not remove or abridge the Treasurer's investment responsibility.

The Treasurer may also delegate investment decision making and execution authority to an investment advisor. The advisor shall follow the Investment Policy and such other written instructions as are provided.

6.0 ETHICS AND CONFLICT OF INTEREST

In accordance with California Government Code Sections 1090 et seq. and 87100 et seq., elected officials, officers and employees of the City will refrain from any activity that could conflict with the proper execution of the investment program or which could impair their ability to make impartial investment decisions. In addition, these same employees are prohibited from undertaking personal investment transactions with any individual with whom City business is conducted.

7.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The City of Concord shall transact business only with commercial banks, savings and loans, and investment securities dealers. The dealers must be primary dealers regularly reporting to the Federal Reserve Bank of New York or regional dealers that qualify under the Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). Selection of financial institutions and broker/dealers authorized to do business with the City shall be at the sole discretion of the City

Treasurer. The Treasurer will maintain a list of financial institutions authorized to transact with the City.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Treasurer with audited financial statement from the three most recent years, at least three references from other California Local agencies, a completed Broker/dealer questionnaire and a statement certifying that the institution has reviewed the California Government Code Section 53600 et seq. and the City's Investment Policy. The Treasurer shall determine if the Financial Institutions are adequately capitalized, make markets in securities appropriate to the City's needs and are recommended by other local agency portfolio managers.

The Treasurer will conduct an annual review of the financial condition of all qualified institutions. Additionally, their current financial statements are required to be on file.

If the City has an investment advisor, the investment advisor may use its own list of authorized broker/dealers to conduct transactions on behalf of the City. The advisor shall make available its list of authorized broker/dealers to City staff upon request.

8.0 AUTHORIZED INVESTMENTS

The City is authorized by California Government Code Section 53600 et seq. to invest in the types of securities listed below.

Where this section specifies a percentage limitation for a particular security type, that percentage is applicable only on the date of purchase. Credit criteria listed in this section refers to the credit rating at the time the security is purchased. If an investment's credit rating falls below the minimum rating required at the time of purchase, the Treasurer will perform a timely review and decide whether to sell or hold the investment.

8.1 United States Treasury Bills, Bonds, and Notes, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest. There is no limitation as to the percentage of the portfolio that can be invested in this category. There is a five-year maximum term.

8.2 Federal Agency or United States Government-Sponsored Enterprise Obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. This shall include any mortgage pass through security issued and guaranteed by a Federal Agency with a maximum final maturity of five years. Purchase of Federal Agency issued mortgage-backed securities authorized by this subdivision

may not exceed 20% of the City's investment portfolio; all other investments in Federal Agency securities are unrestricted.

- 8.3 Obligations of the State of California or any local agency within the state**, including bonds payable solely out of revenues from a revenue producing property owned, controlled or operated by the state or any local agency, or by a department, board, agency or authority of the state or any local agency. These securities shall be rated in one of the three highest rating categories by a nationally recognized statistical-rating organization (“NRSRO”). Purchases in this category, together with those allowed by 8.4, may not exceed 30% of the cost value of the portfolio.
- 8.4 Registered Treasury Notes or Bonds of any of the other 49 states in addition to California**, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state, or by a department, board, agency, or authority of any of these states. These securities shall be rated in one of the three highest rating categories by a NRSRO. Purchases in this category, together with those allowed by 8.3, may not exceed 30% of the cost value of the portfolio.
- 8.5 Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as **Banker’s Acceptances**** with the highest short-term ranking or highest short-term letter and number rating as provided for by a NRSRO. Purchases in this category may not exceed 180 days to maturity or 30% of the cost value of the portfolio.
- 8.6 Commercial Paper** of prime quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph a or paragraph b below:
- a. The entity meets the following criteria: (i) is organized and operating in the United States as a general corporation, (ii) has total assets in excess of five hundred million dollars (\$500,000,000), and (iii) has debt other than commercial paper, if any, that is rated in one of the three highest ratings category by a NRSRO.
 - b. The entity meets the following criteria: (i) is organized within the United States as a special purpose corporation, trust, or limited liability company, (ii) has program-wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond, and (iii) has commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO.

Purchases of eligible commercial paper may not exceed 270 days to maturity. Purchases of commercial paper may not exceed 25 percent of the

cost value of the portfolio nor represent more than 10 percent of the outstanding paper of an issuing corporation.

8.7 Negotiable Certificates of Deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally- or state-licensed branch of a foreign bank. These securities shall be rated in one of the three highest rating categories by a NRSRO. Purchases of Negotiable Certificates of Deposit shall not exceed 30 percent of the cost value of the portfolio nor exceed a five-year term.

8.8 Medium Term Notes (MTNs) issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. MTNs eligible for investment in this category must rate in one of the three highest rating categories by a NRSRO. Investments in this category may not exceed 30 percent of the cost value of the portfolio.

8.9 Shares of beneficial interest issued by diversified management companies that are **Money Market Funds** registered with the Securities and Exchange Commission under the Investment Company Act of 1940. These funds must either have attained the highest rating/ranking by at least two of the three largest NRSROs or have retained an investment advisor registered with the Securities and Exchange Commission with not less than five year's experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).

Investments in this category will not exceed 20 percent of the portfolio and there is no final maturity.

8.10 State Pool – Local Agency Investment Fund (LAIF). This fund was established by the State Treasurer for the benefit of Local agencies under California Government Code Section 16429.1. The City may invest in the LAIF up to the maximum amount permitted by State law.

8.11 Time Certificates of Deposit in a state or national bank, savings association or federal association, or federal or state credit union with a branch in the State of California. In accordance with California Government Code Section 53635.2, to be eligible to receive City deposits, a financial institution shall have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities. Time CDs are required to be collateralized as specified under Government Code Section 53630 et seq. The City, at its discretion, may waive the collateralization requirements for any portion that is covered by federal deposit insurance. The City shall have a signed agreement with any depository accepting City funds per Government

Code Section 53649. No deposits shall be made at any time in time CDs issued by a state or federal credit union if a member of City Council or the Director of Finance serves on the board of directors or any committee appointed by the board of directors of the credit union. In accordance with Government Code Section 53638, any deposit shall not exceed that total shareholder's equity of any depository bank, nor shall the deposit exceed the total net worth of any institution. Purchases in a single institution will not exceed 10 percent of the cost value of the portfolio.

8.12 Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (o), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

(1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.

(2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (o), inclusive.

(3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

8.13 Prohibited Investments. Investments not described herein are ineligible investments. The City shall not invest any funds in inverse floaters, range notes, or interest only strips that are derived from a pool of mortgages in accordance with California Government Code Section 53601.6. In addition, the City shall not invest any funds in any security that could result in zero interest accrual if held to maturity.

9.0 INVESTMENT POOLS/MUTUAL FUNDS

A thorough investigation of any investment pool or money market mutual fund is required prior to investing City funds. A due diligence review will be performed on all money market mutual funds and pooled investment funds on a continued basis.

As outlined in section 8.9 of this policy, investments in mutual funds are restricted to money market mutual funds and must meet the experience and asset requirements as stated. Treasury staff will continually monitor the funds to ensure the maintenance of those ratings/requirements.

Reports on the performance of the Pooled Money Investment Account/LAIF can be found on the California State Treasurer's web site as well as the Investment

Board report, historical rates/costs and market valuations. These reports should be reviewed each month as part of the due diligence review.

10.0 COLLATERALIZATION

California Government Code, Sections 53652 et seq., specifies the types and levels of collateral for public funds on deposit above the FDIC insurance amounts. These collateral requirements apply to both active bank deposits (checking and savings accounts) and inactive bank deposits (non-negotiable certificates of deposit) and must be maintained for all the City's bank deposits

11.0 SAFEKEEPING AND CUSTODY

All securities held by the City of Concord shall be held in safekeeping by a third party bank trust department acting as agent for the City under the terms of the custody agreement executed by the bank and the City, and shall be evidenced by safekeeping receipts. All securities will be received and delivered using standard delivery-versus-payment (DVP) procedures. Investments in the State Pool or money market mutual funds are undeliverable and are not subject to delivery or third party safekeeping.

12.0 DIVERSIFICATION

The City of Concord will diversify its portfolio by investment type, issuer, maturity dates and broker/dealer.

No more than 5% of the City's portfolio shall be invested in the securities of any issuer regardless of security type, excluding U.S. Treasuries, Federal Agencies, and pooled investments such as LAIF, money market funds, or local government investment pools.

For purposes of diversification, LAIF accounts will not be aggregated. Limits for security types are set forth in Section 8.0 of this document.

13.0 MAXIMUM MATURITIES

The City of Concord will attempt to match its investments with anticipated cash flow requirements whenever possible. The maximum maturity of any one security, unless otherwise stated in this Investment Policy or restricted by the California Government Code, is limited to five years. The City may not invest in a security whose maturity exceeds five years from the date of purchase unless City Council has provided approval for a specific purpose at least 3 months before the investment is made.

14.0 INTERNAL CONTROLS

The City Treasurer has developed a system of internal controls to ensure compliance with investment policies and procedures of the City of Concord and the California Government Code.

15.0 REPORTING

On at least a quarterly-basis, the Treasurer shall render a report on the monthly investment transactions in that quarter to the City Council. The report shall be submitted within 30 days of the end of the quarter covered by the report and shall include the type of investment, issuer, maturity date, par and cost/book values of all securities, investments and monies held by the City of Concord. It shall also include the rate of interest, the current market value as of the report date and the source of the valuation. The report shall state compliance of the portfolio to the Investment policy as well as the California Government Code and it shall state the City's ability to meet its estimated expenditures for the next six months.

16.0 INVESTMENT POLICY ADOPTION

The City of Concord's investment policy shall be rendered to and adopted by the City Council annually as recommended by California Government Code 53646.

17.0 GLOSSARY

AGENCIES: Federal agency securities and/or Government sponsored enterprises.

BANKERS ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Time certificates of deposit are collateralized in accordance with the State code. Large-denomination CD's are typically negotiable and non-collateralized.

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

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

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: Delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt of the securities.

DERIVATIVES: (1) Financial instruments whose return profile is lined to or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

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

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

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per deposit.

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

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA or Fannie Mae):

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

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

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

ISSUER: A legal entity that has the power to issue and distribute securities. Issuers include corporations, municipalities, foreign and domestic governments and their agencies, and investment trusts.

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

POOLED MONEY INVESTMENT FUND (LAIF): The aggregate of all funds from political subdivisions that are placed in the custody of the County or State Treasurer for investment and reinvestment. The State of California's pool is known as the Local Agency Investment Fund, or LAIF.

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

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

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

PORTFOLIO: Collection of securities and investments held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal

Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers, banks and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states, the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state. In other states, the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

RATE OF RETURN: For fixed-rate securities, it is the coupon or contractual dividend rate divided by the purchase price which is also the current yield.

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

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C301: See Uniform Net Capital Rule.

TREASURY BILLS: A non-interest bearing discount security issued by the US Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing US Treasury securities issued as direct obligations of the US Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing US Treasury securities issued as direct obligations of the US Government and having initial maturities from two to 10 years.

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

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

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INVESTMENT POLICY
2013/14**

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Treasurer. The Treasurer will maintain a list of financial institutions authorized to transact with the City.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Treasurer with audited financial statement from the three most recent years, at least three references from other California Local agencies, a completed Broker/dealer questionnaire and a statement certifying that the institution has reviewed the California Government Code Section 53600 et seq. and the City's Investment Policy. The Treasurer shall determine if the Financial Institutions are adequately capitalized, make markets in securities appropriate to the City's needs and are recommended by other local agency portfolio managers.

The Treasurer will conduct an annual review of the financial condition of all qualified institutions. Additionally, their current financial statements are required to be on file.

If the City has an investment advisor, the investment advisor may use its own list of authorized broker/dealers to conduct transactions on behalf of the City. The advisor shall make available its list of authorized broker/dealers to City staff upon request.

8.0 AUTHORIZED INVESTMENTS

The City is authorized by California Government Code Section 53600 et seq. to invest in the types of securities listed below.

Where this section specifies a percentage limitation for a particular security type, that percentage is applicable only on the date of purchase. Credit criteria listed in this section refers to the credit rating at the time the security is purchased. If an investment's credit rating falls below the minimum rating required at the time of purchase, the Treasurer will perform a timely review and decide whether to sell or hold the investment.

8.1 United States Treasury Bills, Bonds, and Notes, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest. There is no limitation as to the percentage of the portfolio that can be invested in this category. There is a five-year maximum term.

8.2 Federal Agency or United States Government-Sponsored Enterprise Obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. This shall include any mortgage pass through security issued and guaranteed by a Federal Agency with a maximum final maturity of five years. Purchase of Federal Agency issued mortgage-backed securities authorized by this subdivision

may not exceed 20% of the City's investment portfolio; all other investments in Federal Agency securities are unrestricted.

- 8.3 Obligations of the State of California or any local agency within the state**, including bonds payable solely out of revenues from a revenue producing property owned, controlled or operated by the state or any local agency, or by a department, board, agency or authority of the state or any local agency. These securities shall be rated in one of the three highest rating categories by a nationally recognized statistical-rating organization (“NRSRO”). Purchases in this category, together with those allowed by 8.4, may not exceed 30% of the cost value of the portfolio.
- 8.4 Registered Treasury Notes or Bonds of any of the other 49 states in addition to California**, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state, or by a department, board, agency, or authority of any of these states. These securities shall be rated in one of the three highest rating categories by a NRSRO. Purchases in this category, together with those allowed by 8.3, may not exceed 30% of the cost value of the portfolio.
- 8.5** Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as **Banker’s Acceptances** with the highest short-term ranking or highest short-term letter and number rating as provided for by a NRSRO. Purchases in this category may not exceed 180 days to maturity or 30% of the cost value of the portfolio.
- 8.6 Commercial Paper** of prime quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph a or paragraph b below:
- a. The entity meets the following criteria: (i) is organized and operating in the United States as a general corporation, (ii) has total assets in excess of five hundred million dollars (\$500,000,000), and (iii) has debt other than commercial paper, if any, that is rated in one of the three highest ratings category by a NRSRO.
 - b. The entity meets the following criteria: (i) is organized within the United States as a special purpose corporation, trust, or limited liability company, (ii) has program-wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond, and (iii) has commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO.

Purchases of eligible commercial paper may not exceed 270 days to maturity. Purchases of commercial paper may not exceed 25 percent of the

cost value of the portfolio nor represent more than 10 percent of the outstanding paper of an issuing corporation.

8.7 Negotiable Certificates of Deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally- or state-licensed branch of a foreign bank. These securities shall be rated in one of the three highest rating categories by a NRSRO. Purchases of Negotiable Certificates of Deposit shall not exceed 30 percent of the cost value of the portfolio nor exceed a five-year term.

8.8 Medium Term Notes (MTNs) issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. MTNs eligible for investment in this category must rate in one of the three highest rating categories by a NRSRO. Investments in this category may not exceed 30 percent of the cost value of the portfolio.

8.9 Shares of beneficial interest issued by diversified management companies that are **Money Market Funds** registered with the Securities and Exchange Commission under the Investment Company Act of 1940. These funds must either have attained the highest rating/ranking by at least two of the three largest NRSROs or have retained an investment advisor registered with the Securities and Exchange Commission with not less than five year's experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).

Investments in this category will not exceed 20 percent of the portfolio and there is no final maturity.

8.10 State Pool – Local Agency Investment Fund (LAIF). This fund was established by the State Treasurer for the benefit of Local agencies under California Government Code Section 16429.1. The City may invest in the LAIF up to the maximum amount permitted by State law.

8.11 Time Certificates of Deposit in a state or national bank, savings association or federal association, or federal or state credit union with a branch in the State of California. In accordance with California Government Code Section 53635.2, to be eligible to receive City deposits, a financial institution shall have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities. Time CDs are required to be collateralized as specified under Government Code Section 53630 et seq. The City, at its discretion, may waive the collateralization requirements for any portion that is covered by federal deposit insurance. The City shall have a signed agreement with any depository accepting City funds per Government Code Section 53649. No deposits shall be made at any time in time CDs issued

by a state or federal credit union if a member of City Council or the Director of Finance serves on the board of directors or any committee appointed by the board of directors of the credit union. In accordance with Government Code Section 53638, any deposit shall not exceed that total shareholder's equity of any depository bank, nor shall the deposit exceed the total net worth of any institution. Purchases in a single institution will not exceed 10 percent of the cost value of the portfolio.

8.12 Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (o), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

(1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.

(2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (o), inclusive.

(3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

8.13 Prohibited Investments. Investments not described herein are ineligible investments. The City shall not invest any funds in inverse floaters, range notes, or interest only strips that are derived from a pool of mortgages in accordance with California Government Code Section 53601.6. In addition, the City shall not invest any funds in any security that could result in zero interest accrual if held to maturity.

9.0 INVESTMENT POOLS/MUTUAL FUNDS

A thorough investigation of any investment pool or money market mutual fund is required prior to investing City funds. A due diligence review will be performed on all money market mutual funds and pooled investment funds on a continued basis.

As outlined in section 8.9 of this policy, investments in mutual funds are restricted to money market mutual funds and must meet the experience and asset requirements as stated. Treasury staff will continually monitor the funds to ensure the maintenance of those ratings/requirements.

Reports on the performance of the Pooled Money Investment Account/LAIF can be found on the California State Treasurer's web site as well as the Investment

Board report, historical rates/costs and market valuations. These reports should be reviewed each month as part of the due diligence review.

10.0 COLLATERALIZATION

California Government Code, Sections 53652 et seq., specifies the types and levels of collateral for public funds on deposit above the FDIC insurance amounts. These collateral requirements apply to both active bank deposits (checking and savings accounts) and inactive bank deposits (non-negotiable certificates of deposit) and must be maintained for all the City's bank deposits

11.0 SAFEKEEPING AND CUSTODY

All securities held by the City of Concord shall be held in safekeeping by a third party bank trust department acting as agent for the City under the terms of the custody agreement executed by the bank and the City, and shall be evidenced by safekeeping receipts. All securities will be received and delivered using standard delivery-versus-payment (DVP) procedures. Investments in the State Pool or money market mutual funds are undeliverable and are not subject to delivery or third party safekeeping.

12.0 DIVERSIFICATION

The City of Concord will diversify its portfolio by investment type, issuer, maturity dates and broker/dealer.

No more than 5% of the City's portfolio shall be invested in the securities of any issuer regardless of security type, excluding U.S. Treasuries, Federal Agencies, and pooled investments such as LAIF, money market funds, or local government investment pools.

For purposes of diversification, LAIF accounts will not be aggregated. Limits for security types are set forth in Section 8.0 of this document.

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13.0 MAXIMUM MATURITIES

The City of Concord will attempt to match its investments with anticipated cash flow requirements whenever possible. The maximum maturity of any one security, unless otherwise stated in this Investment Policy or restricted by the California Government Code, is limited to five years. The City may not invest in a security whose maturity exceeds five years from the date of purchase unless City Council has provided approval for a specific purpose at least 3 months before the investment is made.

14.0 INTERNAL CONTROLS

The City Treasurer has developed a system of internal controls to ensure compliance with investment policies and procedures of the City of Concord and the California Government Code.

15.0 REPORTING

On at least a quarterly basis~~On a monthly basis~~, the Treasurer shall render a report on monthly investment transactions to the City Council. The report shall be submitted within 30 days of the end of the month covered by the report and shall include the type of investment, issuer, maturity date, par and cost/book values of all securities, investments and monies held by the City of Concord. It shall also include the rate of interest, the current market value as of the report date and the source of the valuation. The report shall state compliance of the portfolio to the Investment policy as well as the California Government Code and it shall state the City's ability to meet its estimated expenditures for the next six months.

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16.0 INVESTMENT POLICY ADOPTION

The City of Concord's investment policy shall be rendered to and adopted by the City Council annually as recommended by California Government Code 53646.

17.0 GLOSSARY

AGENCIES: Federal agency securities and/or Government sponsored enterprises.

BANKERS ACCEPTANCE (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Time certificates of deposit are collateralized in accordance with the State code. Large-denomination CD's are typically negotiable and non-collateralized.

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

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

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: Delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt of the securities.

DERIVATIVES: (1) Financial instruments whose return profile is lined to or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

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

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

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per deposit.

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

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA or Fannie Mae):

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

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

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae):

Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the US Government. Ginnie Mae securities are backed by the mortgages, including FHA and VA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

ISSUER: A legal entity that has the power to issue and distribute securities. Issuers include corporations, municipalities, foreign and domestic governments and their agencies, and investment trusts.

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

POOLED MONEY INVESTMENT FUND (LAIF): The aggregate of all funds from political subdivisions that are placed in the custody of the County or State Treasurer for investment and reinvestment. The State of California's pool is known as the Local Agency Investment Fund, or LAIF.

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

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

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

PORTFOLIO: Collection of securities and investments held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal

Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers, banks and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states, the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state. In other states, the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

RATE OF RETURN: For fixed-rate securities, it is the coupon or contractual dividend rate divided by the purchase price which is also the current yield.

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

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C301: See Uniform Net Capital Rule.

TREASURY BILLS: A non-interest bearing discount security issued by the US Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing US Treasury securities issued as direct obligations of the US Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing US Treasury securities issued as direct obligations of the US Government and having initial maturities from two to 10 years.

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

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