

City of Tracy

COUNCIL POLICY
(Formerly Referred to as B-6)

SUBJECT: Investment Policy

AUTHORIZATION: Resolution 93-103

EFFECTIVE DATE: April 6, 1993

I. STATEMENT OF OBJECTIVES

Temporarily idle or surplus funds of the City of Tracy shall be invested in accordance with principles of sound treasury management and in accordance with the provisions of California Government Code Section 53600 et seq., the Tracy Municipal Code, and this Investment Policy.

A. Overall Risk Profile

The basic objectives of Tracy investment program are, in order of priority:

1. Safety of invested funds;
2. Maintenance of sufficient liquidity to meet cash flow needs; and
3. Attainment of the maximum yield possible consistent with the first two objectives.

The achievement of these objectives shall be accomplished in the manner described below:

1. Safety of Invested Funds

The City shall ensure the safety of its invested idle funds by limiting credit and interest rate risk.

Credit risk is the risk of loss due to the failure of the security issuer or backer. Interest rate risk is the risk that the market value of portfolio securities will fall due to an increase in general interest rates.

a. Credit risk will be mitigated by:

- i. Limiting investment to the safest types of securities;
- ii. By pre-qualifying the financial institutions with which it will be doing business;
- iii. By diversifying the investment portfolio so that the failure of any one issuer or backer will not place an undue financial burden on the City;
- iv. By timely monitoring all of the City's investments to anticipate and respond appropriately to a significant reduction of credit worthiness of any of the depositories.

- b. Interest rate risk will be mitigated by:
 - i. Structuring the City's portfolio so that securities mature to meet the City's cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to their maturation to meet those specific needs; and
 - ii. Investing primarily in shorter-term securities, unless it is anticipated that long-term securities can be held to maturity without jeopardizing liquidity requirements.
 - iii. Occasionally restructuring the portfolio to minimize the loss of market value and/or maximize cash flows in income.
- c. The physical security or safekeeping of the City's investments is also an important element of safety. Detailed safekeeping requirements are defined in Section III of this Policy.

2. Liquidity

The City's investment portfolio must be structured in a manner, which will provide that securities mature at the same time as cash is needed to meet anticipated demands (static liquidity). Additionally, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). The specific percentage mix of different investment instruments and maturities is described in Section II of the Policy.

3. Yield

Yield on the City's investment portfolio is of secondary importance compared to the safety and liquidity objectives described above. Investments are limited to relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed. While it may occasionally be necessary or strategically prudent for the City to sell a security prior to maturity to either meet unanticipated cash needs or to restructure the portfolio to meet the current market conditions.

B. Time Frame for Investment Decisions

The City's investment portfolio shall be structured to provide that sufficient funds from investments are available every month to meet the City's anticipated cash needs. Subject to the safety provisions outlined above, the choice of investment instruments and maturities shall be based upon an analysis of anticipated cash needs, existing and anticipated revenues, interest rate trends and specific market opportunities. The average maturity of the investment portfolio will not exceed three years, and no investment will have a maturity of more than five years from its date of purchase, including U.S. Treasury and/or its Government affiliated Agencies.

1. Definitions

- a. "Maturity" shall mean the period from the date of purchase until the final maturity date stated on the instrument.
- b. "Average maturity of the investment portfolio" shall be computed as follows:

$$\frac{\text{Sum of } \$ \times \text{Years}}{\text{Total } \$ \text{ of portfolio}} = \text{Average maturity (years)}$$
- c. "Total dollar amount of portfolio" shall mean all monies of the City excluding proceeds from bond issues.

C. Definition of Idle or Surplus Funds

Idle or surplus funds for the purpose of this Policy are all City funds, which are available for investment at any one time, including the estimated checking account float, excepting those minimum balances required by the City's banks to compensate them for the cost of banking services. This policy also applies to the idle or surplus funds of other entities for which the City of Tracy personnel provide financial management services.

D. Limitations on Reverse Repurchase Agreements

A reverse repurchase agreement is a transaction in which the City sells securities to a counter party and agrees to repurchase the securities from the counter party at a date certain. Under no circumstances shall the City sell securities through reverse repurchase agreements for the purpose of financing the acquisition of other securities. Except as otherwise authorized by the City Council, the use of reverse repurchase agreements will be limited to those occasions where unanticipated, short-term cash requirements can be met more advantageously by initiating a reverse repurchase agreement than by selling a security into the secondary market prior to its maturity. (For example, if a specific cash requirement precedes the maturity of a security, which had been intended to meet that requirement; it may be advantageous to initiate a reverse repurchase agreement by transferring the security to a counterpart rather than selling the security into the secondary market prior to its maturity. Proceeds from the maturity of the security would then be used to close out the reverse repurchase agreement.) When such a reverse repurchase agreement is being considered it shall be reported to the City Council for Council approval.

E. Standards of Prudence and Ethics

Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall portfolio shall be designed and managed with a degree of professionalism worthy of the public trust.

The standard of Prudence to be used by investment officials shall be the prudent investor (see below) and shall be applied in the context of managing an overall portfolio.

Prudent Investor Standard

When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

II. INVESTMENT OF IDLE FUNDS

A. Eligible Securities

The City may invest temporarily idle funds through banks, securities dealers, the State Local Agency Investment Fund (LAIF), California Asset Management Plan (CAMP) and other investment instruments as designated by the California State Code.

The following table summarized the authorized investment instruments, and applicable limitations on each. Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase as per California Government Code Section 53601. Consistent with the terms of this policy, no investment is permitted which is not listed on the following table:

	<u>LOCATION</u>	<u>DOLLAR VALUE</u>	<u>MATURITY</u>
<u>CATEGORY ONE:</u>			
Local Agency Investment Fund	California	Per LAIF Limit	On Demand
California Asset Management Program	California	No Limit	On Demand
Safekeeping Services Sweep Accounts	Banks	Per Investment Type	On Demand
US Treasury Issues	-----	No Limit	NTE 5 Yrs
US Government Agency Debenture Issues	-----	Per State Code	NTE 5 Yrs
Insured Deposits Banks	California	Per State Code	On Demand

CATEGORY TWO:

Repurchase Agreements	Banks and Dealers	No Limit	NTE 1 Year
Reverse Repurchase	Banks and Dealers	NTE 20%	NTE 92 days
Certificates of Deposit	Banks in California	30% Portfolio	NTE 1 Year

CATEGORY THREE:

Bankers Acceptances (1)	Domestic US Foreign	30% Portfolio	NTE 6 Mo
Commercial Paper	Domestic US	Per State Code	NTE 9 Mo
Negotiable CDs	Domestic US	Per State Code	NTE 18 Mo
Municipal Securities	Domestic US	30% Portfolio	NTE 5 Yrs
Med Tern Corp Notes	Domestic US	30% Portfolio	NTE 5 Yrs
Money Market Funds	Domestic US	20% Portfolio	On Demand

CODE REFERENCES

STATE GOV'T CODE#

FOOTNOTES

US Treasury & Agencies	53601(b),(f)	(1) Must be dollar denominated
Bankers Acceptance	53601(g)	(2) Money Market funds must be comprised of eligible securities permitted under this policy.
Commercial Paper	53601(h)	
Certificate of Deposits	53638	
Negotiable CDs	53601(i)	
Repurchase Agreements	53601(j) (1), (2)	
Reverse Repo Agreements	53601(j) (3)	
Medium Term Corp Notes	53601(k)	
Money Market Funds	53601(m to o)(2)	
Municipal Securities	53601 (a)	
LAIF	16429(l)	
CAMP	53601(p)	
Active Deposits	53632(b), (c)	

No more than 10% of the total portfolio shall be invested in the issuances of any single institution other than securities issued by the U.S. Government, its affiliated agencies, LAIF and CAMP.

B. Qualification of Brokers, Dealers and Financial Institutions

Aside from LAIF, CAMP, insured deposits, and U.S. Treasury and Government Agency issues, investments shall be placed only in those instruments and institutions rated favorably by a nationally recognized statistical-rating organization (NRSRO). For Banker's Acceptances, domestic depositories shall be limited to banks rated "b" or better, and selected major California banks rated "c" or better. Foreign Bankers Acceptances shall be limited to depositories rated 1/11 or better (the equivalent of an A/B domestic rating) and must be dollar-denominated instruments. An information log containing the type of collateral in the acceptance shall be maintained. Negotiable Certificates of Deposit shall be issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a state-licensed branch of a foreign bank, provided that the senior debt obligations of the issuing institution are rated A or better by a NRSRO. For Time Deposits over \$250,000, depositories shall be limited to California State banks and financial institutions that have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation. Except for insured deposits in California banks, City investment transactions will be conducted only with institutions meeting the tests described above, and/or with dealers from the list of Government Security dealers reporting to the Market Reports Division of the Federal Reserve Bank of New York (Exhibit A) and/or with dealers from the list of Commercial Paper dealers reporting to the Market Reports Division of the Federal Reserve Bank of New York (Exhibit B). Except for investment in Banker's Acceptances and Negotiable Certificates of Deposit, the City will limit its investments in banks to those institutions maintaining offices in the State of California.

The California Government Code restricts cities to investing in commercial paper of the highest rankings provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):

1. 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). (iii) Has debt other than commercial paper, if any, that is rated "A" or higher by a nationally recognized statistical-rating organization.
2. 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. (iii) Has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical-rating organization.

The City may not hold more than 5% of an issuing corporation's commercial paper.

The California Government Code restricts cities to investing in medium term corporate notes of a maximum of five years maturity issued by corporations operating within the United States. Securities eligible for investment must be

rated A or better by two of the three largest nationally recognized services. Medium-term corporate notes may not exceed 30% of the City's portfolio.

C. *Collateralization Requirements*

Uninsured time deposits with banks shall be collateralized in the manner prescribed by law for depositories accepting municipal investment funds.

D. *Pre-formatted Wire Transfers*

Wherever possible, the City will use pre-formatted wire transfers to restrict the transfer of funds to pre-authorized accounts only. When transferring funds to an account not previously approved, the bank is required to call bank a second employee for confirmation that the transfer is authorized.

E. *Requirement for Financial Statements*

Each bank, and security dealer, otherwise qualified under the provisions of this policy, who wishes to do business with the City shall submit a copy of its latest financial statement to the City including a balance sheet and profit and loss statement. If the security dealer is a private partnership registered with the SEC, the following shall be required in lieu of a profit and loss statement: 1) disclosure of its excess net capital in the notes to the statement of financial condition, and 2) a separate letter from its CPA firm attesting to the fact that Rule 15c 3-1 has been complied with and the dealer's internal systems and controls have no material inadequacies.

After a review of the financial statement and all other relevant information, the City will determine whether a service agreement should be executed with the institution based on the standards outlined in this Policy. The City requires that an agreement for services be executed prior to entrusting its funds to any dealer or financial institution, and that up-to-date financial statements be sent to the City Treasurer.

F. *Notice to Dealers*

The City Treasurer shall annually send a copy of the current edition of this Investment Policy to all institutions, which are approved to handle City of Tracy investments. Receipt of the Policy, including confirmation that it has been reviewed by persons handling the City's account, shall be acknowledged in writing within thirty days.

G. *Requirements for Repurchase Agreements*

A repurchase agreement is a transaction in which a counterpart agrees to transfer to the City securities or financial instruments in exchange for funds with a simultaneous agreement by the City to resell the securities to the counterpart at a date certain. In such cases, the transferred securities shall be U.S. Treasury or Government Agency issues whose market value at the time of transfer is equal to at least 102% of the repurchase agreement's face value. For other than

overnight investments, the securities transferred shall be marked to market on a daily basis and maintained at an amount equal to at least 102% of the repurchase agreement's face value. The market value of the transferred securities may be required to exceed the repurchase agreement's face value by an amount, which is expected to protect against a sudden decrease in the market value of the transferred securities.

The types of securities to be accepted as transferred securities in repurchase agreements in which the City is the buyer shall be limited to the types of eligible U.S. Treasury or Government Agency issues described in Sections II.A and II.B. The maturities of transferred securities shall not be limited as described in Section II.A. Substitutions or transferred securities may not be made without prior approval by the City.

III. SAFEKEEPING OF SECURITIES

A. *Safekeeping Agreement*

Securities purchased from Brokers/Dealers shall be held in third party safekeeping by the trust department of the local agency's bank or other designated third party trust, in local agency's name and control, whenever possible. The City may contract with a bank or banks for the safekeeping of marketable securities, which are transferred to the City under the terms of repurchase agreements.

B. *Handling of City-Owned Marketable Securities & Time Deposit Collateral*

All marketable securities owned by the City shall be held by its safekeeping agent, except the collateral for time deposits in banks. The collateral for time deposits is held by the Federal Home Loan Bank. The collateral for time deposits in banks is held in the City's name in the bank's trust department or with its correspondent bank (if a safekeeping agreement has been executed) or, alternatively, in the San Francisco Federal Reserve Bank.

C. *Handling of Repurchase Agreement Securities*

The securities transferred to the City under the terms of repurchase agreements with banks may be held in the issuing bank's trust department, provided that a master trust agreement has been executed insuring fiduciary separation of these assets from other bank assets. The securities transferred to the City under the terms of repurchase agreements with dealers must be delivered to a third-party custodian with whom the City has established a safekeeping agreement.

IV. STRUCTURE AND RESPONSIBILITY

This section of the Investment Policy defines the overall structure of the investment management program.

A. *Responsibilities of the City Treasurer*

The City Treasurer is charged by law with responsibility for the deposit and investment of City funds, which come into his hands in accordance with principles of sound treasury management and in accordance with applicable laws and ordinances, and the development of procedures to implement this investment policy. He is responsible to keep the City Council fully advised as to the financial condition of the City Treasury.

Security Transfers

The authorization to release City securities will be telephoned to the appropriate bank by the Treasurer. A written confirmation outlining details for the transaction and confirming the telephoned instructions will be sent to the bank within five (5) working days.

B. *Responsibilities of the Finance and Administrative Services Director*

The City Finance and Administrative Services Director is responsible for the fiscal procedures of the City. A review of the City's investment program is a part of the responsibility described above.

C. *Verification of Security*

Securities transferred to the City under the terms of repurchase agreements and collateral securing time deposits, which are being held in safekeeping for the City, will be verified in writing and examined on a surprise basis during the year. Verification of transferred securities and time deposit collateral will be part of the City's annual independent audit.

D. *Responsibilities of the City Council*

The City Council shall consider and adopt, by resolution, an investment policy. As provided in that Policy, the Council shall receive, review, and accept monthly Investment Reports.

V. REPORTING

The City Treasurer shall prepare a monthly Investment Report within 45 days after the close of the month, including a succinct management summary that provides a clear picture of the status of the current investment portfolio and significant transactions made over the past month. This management summary will be prepared in a manner, which

will allow the City Manager and City Council to ascertain whether investment activities during the reporting period have deviated from the City's Investment Policy.

A monthly Investment Report will include the following:

- A. Trend of average portfolio maturity;
- B. Maturity aging by type of investment;
- C. Percentage mix of portfolio by type of investment, including a listing of individual securities held at the end of the reporting month;
- D. A statement that the portfolio investments comply with all State and Federal laws and are in compliance with this policy. Any prior violations which have not been corrected must be so identified;
- E. Trend of rate of return on investments;
- F. Unrealized gains or losses resulting from appreciation or depreciation in the market value of securities;
- G. Interest cost and interest earnings from reverse repurchase agreement transactions;
- H. All investment transactions occurring during the month whether or not the transaction has been fully settled; and
- I. As per State applicable laws, demonstrate current market position of all marketable securities.

The following can be found on file in the City Treasurer's office:

- A. Realized trading gains and losses and interest received on trading activity;
- B. Aggregate commitments to purchase securities or make other payments to dealers in a manner to permit adequate cash need forecasting;
- C. A description of the current investment strategy and the assumptions upon which it is based;
- D. Average rate of return on reporting month's purchases;
- E. Average rate of return on reporting month's sales and/or maturities;
- F. Distribution reports by bank and broker/dealer; and
- G. Cash management projections;

VI. REVIEW OF INVESTMENT MANAGEMENT

A. *Policy Exceptions*

There shall be no exceptions to the prescribed limits and obligations of this policy.

B. *Investment Review*

The City Council, by Resolution No. 95-087, has established an Investment Review Committee. This Committee, composed of two City Council Members, the City Treasurer, the City Manager, and the Finance and Administrative Services Director shall meet not less than quarterly to review the City Treasurer's report and investment activities.

C. Policy Review

This Investment Policy shall be reviewed annually to ensure its consistency with respect to the overall objectives of safety, liquidity and yield, and its relevance to current laws and financial trends. Proposed amendments to the Policy shall be prepared by the City Treasurer, and after review and approval by the City Manager, shall be forwarded to the City Council for consideration and approval.

VII. INVESTMENT OF PROCEEDS OF DEBT ISSUANCE

The following section governs the investment of proceeds from debt issuance. Investments can be made in accordance with this policy when not in conflict with applicable provisions of a particular debt financing.

“Permitted Investments” means any of the following, which at the time of investment are legal investments under the laws of the State for the monies proposed to be invested therein:

- A. Direct obligations (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America;
- B. 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 rated “AAA” by an NRSRO.
- C. Interest-bearing demand or time deposits (including certificates of deposit, and bank investment contracts whether negotiable or non-negotiable) in federal or state chartered savings and loan associations or in national or State banks (including the Trustee) provided that either: (a) the obligations of such association or bank or the obligations of the holding company of such association or bank are rated in one of the three highest rating categories by a NRSRO; or (b) such deposits are fully insured by the Federal Deposit Insurance Corporation, provided, however, that the portion of any certificates of deposit in excess of the amount insured by the Federal Deposit Insurance Corporation, if any, shall be secured at all times in the manner provided by law by collateral security having market value not less than the amount of such excess, consisting of securities described in this section, items (1) through (4);
- D. Investment agreements, guaranteed investment contracts, funding agreements, or any other form of corporate note representing the unconditional obligations of entities; (a) the unsecured long-term debt obligations or claims-paying ability ratings of which are rated in the top three rating categories by a NRSRO, or (b) the short-term debt obligation rated in the two highest categories of either of such rating agencies;
- E. Repurchase agreements with financial institutions insured by the FDIC or FSLIC, or any broker-dealer with “retail customers” which falls under the jurisdiction of the Securities Investors Protection Corporation (SIPC), provided that: (a) the

over-collateralization is at one hundred two percent (102%), computed weekly, consisting of such securities as described in this section, items (1) through (4); (b) a third party custodian, the Trustee or the Federal Reserve Bank shall have possession of such obligations; © the Trustee shall have perfected a first priority security interest in such obligations; and (d) failure to maintain the requisite collateral percentage will require the Trustee to liquidate the collateral;

- F. Money Market Mutual Funds registered with the Securities and Exchange Commission and rated in the highest category by a NRSRO;
- G. Tax-exempt obligations rated in either of the two highest rating categories by a NRSRO, including money market funds so rated;
- H. Deposits in the Local Agency Investment Fund (LAIF) referred to in Section 16429.1 of the Government Code of the State;
- I. Deposits in the California Asset Management Plan (CAMP) referred to in the JPA Investment, approved by Resolution No. 98-104, of the Tracy City Council on April 7, 1998.
- J. In the event the issue becomes credit enhanced, the foregoing permitted investments must be approved by the credit enhancement agency. In addition, the permitted investments may be expanded to include any other investments approved by the credit enhancement agency.

Amended by: Resolution 93-103 - 4/6/93
Resolution 94-228 - 7/19/94
Resolution 95-132 - 5/2/95
Resolution 97-354 - 10/21/97
Resolution 98-190 - 6/16/98
Resolution 99-343 - 9/7/99
Resolution 2000-351 - 8/15/00
Resolution 2001-360 - 10/2/01
Resolution 2002-236 - 8/6/02
Resolution 2004-209 - 7/6/04
Revised by Resolution 2005-300 - 12/6/05
Resolution 2007-002 - 1/2/07
Revised by Resolution 2009-036 - 3/3/09
Revised by Resolution 2011-105