# City of South San Francisco Investment Policy – Exhibit A
# July 1, 2011

## PURPOSE:

The following statement is intended to provide guidelines for the "Prudent Person Standard" of investment of the City's temporary idle cash and to outline the policies for an effective cash management system.

Investments shall be made with judgment and care which persons of prudence and intelligence exercise in the management of their own affairs considering safety of principal, liquidity, as well as probable income to be derived.

The City's cash management system's goal is to accurately monitor and forecast revenues and expenditures enabling the City to invest funds to the fullest extent possible. The City Treasurer attempts to obtain the highest yield possible as long as investments meet the criteria established for safety and liquidity. This Investment Policy applies to all City funds except retirement, pension, or bond proceeds or bond reserves, which have their own constraining requirements.

The investment policies and practices of the Treasurer of the City of South San Francisco are based upon federal, state, and local laws as well as prudent money management. The primary objectives of these policies are, in priority order:

1. To assure compliance with all federal, state, and local laws governing the investment of monies.

2. To maintain the principal of the City's investments.

3. To remain sufficiently liquid to meet all expenses.

4. After safety and liquidity are assured, to generate the maximum amount of investment income within the parameters of this statement of investment policy.

## INVESTMENT OBJECTIVES:

1. SAFETY OF PRINCIPAL is the foremost objective of the Investment Policy. The Treasurer shall seek to ensure that capital losses are avoided with each investment transaction. The objective is to mitigate credit risk (the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt) and interest rate risk (the market value of the security in the portfolio will fall due to changes in general interest rates).

2. LIQUIDITY is the second most important objective of the Investment Policy. It is important that a portion of the portfolio contain investments, which can be easily liquidated with minimal, or no risk to principal and/or interest. The longest maturity of any investment shall be five years. The portfolio shall be structured so that sufficient funds are readily available to meet all reasonably anticipated operating expenses.

3. YIELD is the return earned by the City Treasurer on monies invested. The City's funds shall be designed to attain a rate of return throughout budgetary and economic cycles which is approximately equal to the return on a Market Benchmark Index which will be reported to the City Council on a periodic basis. The current index that is consistent with this policy, the market, and the cash flow needs of the City is the 1-5 year Government Index. Yield will be considered only after the basic requirements of safety, liquidity, and credit quality have been met.

**INVESTMENT POLICY:**

The City is governed by the California Government Code, Section 53600 et.seq. Within the context of these limitations, the following investments are authorized:

U.S. TREASURY SECURITIES for which the full faith and credit of the U.S. are pledged for the payment of principal and interest. There is no limit to the percentage of the portfolio that can be invested in U.S. Treasuries. However, their maturities shall be limited to 5 years or less. However, their maturities shall be limited to 5 years or less.

OBLIGATIONS ISSUED BY AGENCIES OF THE UNITED STATES GOVERNMENT (AGENCIES), including the Government National Mortgage Association (GNMA), the Federal Farm Credit Bank System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), Tennessee Valley Authority (TVA). The amount of any one issuer shall not exceed 25 percent of the portfolio, with the maturity not to exceed 5 years.

FDIC Insured CORPORATE NOTES, issued by a corporation under the Federal Deposit Insurance Corporation's (FDIC) Temporary Liquidity Guarantee Program (TLGP). These notes are backed by the full faith and credit of the United States Government. The amount of any one issuer shall not exceed 25 percent of the portfolio.

COMMERCIAL PAPER must be of prime quality of the highest rating by both Moody's and Standard and Poor's (P1 by Moody's and A1 by Standard and Poor's). Eligible paper is limited to corporations organized and operating within the U.S. and having total assets of at least $500,000,000. There are also limitations as to the percent (10%) of the portfolio, the time of investment (270 days) and the amount of any one issuer shall not exceed 5 percent of the portfolio.

REPURCHASE AGREEMENTS (Repos) allow a purchase of securities by a local agency; by agreement, the seller will repurchase the securities on or before a specified date and for a specified amount. The maturity should not exceed ninety days. Repos should only be purchased when a purchase agreement is executed with a bank in which the underlying security shall have a market value of at least: 102% for U.S. Treasuries or 105% for U.S. Agencies of the funds borrowed. Pledged securities must be held by a third party custodian. The issuing counter party shall be rated in a rating category of "AA" or its equivalent or better by nationally recognized rating services (Standard and Poor's and Moody's).

THE LOCAL AGENCY INVESTMENT FUND is a pooled fund managed by the State Treasurer whose permitted investments are identified in the Government Code Section 164291. LAIF offers high liquidity as deposits and withdrawals can be wired to and from South San Francisco on the same day, provided the request is made before 10:00 A.M. No maximum limit for LAIF is set by this investment policy.

THE SAN MATEO COUNTY INVESTMENT FUND established for the benefit of local agencies, is a pooled fund managed by the San Mateo County Treasurer. Various County monies due local agencies are deposited in the fund rather than forwarded to the local agencies in check form. The Treasurer shall attempt to minimize balances in this fund to less than $1 million of the portfolio, recognizing that it may take several days to obtain up to date information from the County on new deposits and/or transfer the excess funds out. This means that for several days, the $1 million limitation may be exceeded.

MUTUAL FUNDS are shares of beneficial interest issued by diversified management companies, as defined by Section 23701 M of the Revenue and Taxation Code. To be eligible for investment, these funds must strive to maintain a net asset value of $1.00 per share at all times and:

a) Attain the highest ranking in the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services; or

b) Have an investment advisor registered with the Securities and Exchange Commission with not less than five years experience investing in securities and obligations, and with assets under management in excess of five hundred million dollars; and

c) Invest solely in those securities and obligations authorized by Sections 53601 and 53635 of the California Government Code. Where the City's Investment Policy may be more restrictive than the State Code, the Policy authorizes investments in mutual funds that shall have minimal investment in securities otherwise restricted by the City's Policy. Minimal investment is defined as less than 5 percent of the mutual fund portfolio.

Mutual fund investments shall not exceed 20% of the portfolio, with no more than 10% of the portfolio invested with any one institution.

**PROHIBITED INVESTMENTS:**

Instruments not expressly authorized are prohibited. In accordance with Government Code Section 53601.6, investment in inverse floaters, range notes or mortgage derived interest-only strips is prohibited, as are derivatives. Investment in any security that could result in a zero interest accrual if held to maturity is also prohibited.

## SUMMARY OF AUTHORIZED INVESTMENTS:

| Instrument | Limitations | | | | |
|---|---|---|---|---|---|
| | Minimum Rating | % of Portfolio | % in any single Issuer | Maximum Maturity | Minimum Collateral |
| U.S. Treasuries | | 100% | 100% | 5 years | |
| U.S. Agencies | | 100% | 25% | 5 years | |
| FDIC Corporate Notes | | 100% | 25% | 5 years | |
| Commercial Paper | P1/A1 | 10% | 5% | 270 days | |
| Repurchase Agreements | | | | | |
| Issuing Counter Party | AA | | | | |
| Collateral: | | | | | |
| If U.S. Treasuries | | | | | 102% |
| If U.S. Agencies | | | | | 105% |
| Local Agency Investment Fund (LAIF) | | 100% | | | |
| San Mateo County Pool | | <$1.0 million * | | | |
| Mutual Funds | Aaa Moody's/ AAAm S&P | 20% | 10% | | |

* Except for brief periods after the County deposits tax proceeds in the City's account in the County Pool.

## AUTHORIZED INVESTMENTS PERSONNEL:

The City Treasurer and any Deputy Treasurers he or she appoints are authorized to approve investment transactions. Deputy Treasurers shall include at a minimum the City Finance Director.

## MITIGATING CREDIT RISK:

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The City shall mitigate credit risk by adopting the following strategies:

1. No more than 5% of the total portfolio may be invested in securities of any single issuer, other than:
   a. U.S. Treasuries and LAIF, which have no limit; and
   b. U.S. Agencies, which shall be limited to no more than 25% of the portfolio in any one issuing Agency.

2. The City Treasurer may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions or City's risk preferences; and,

3. If securities owned by City are downgraded by either Moody's or Standard and Poor's to a level below the quality required by this Investment Policy, it shall be the City Treasurer's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.

    a. If a security is downgraded, the Treasurer will use discretion in determining whether to sell or hold the security based on its current maturity, the economic outlook for the issuer, and other relevant factors.

    b. If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported monthly to the City Council.

**DEPOSITORY SERVICES:**

Monies must be deposited in state or national banks, state or federal savings and loan associations, or state or federal credit unions in the state of California. The monies may be in inactive deposits, active deposits, or interest-bearing active deposits. The deposits in any institution cannot exceed the amount of the bank's or savings and loan's paid up capital and surplus.

The bank, savings and loan, or federal credit union must secure the active and inactive deposits with eligible government securities having a market value of at least 110% of the total amount of the deposits.

Funds held in a bank should be limited to weekly cash flow needs, and excess funds should be either invested in LAIF or a money market mutual fund. Any depository institution used by the City should provide overnight sweep vehicles that comply with this Investment Policy and the State Government Code.

**QUALIFIED DEALERS AND INSTITUTIONS:**

Except for transactions with the State and County investment pools, the City shall transact investment business only with banks, savings and loans, and with investment securities dealers as defined in Government Code Section 53601.5:

> "The purchase by a local agency of any investment authorized pursuant to Section 53601 or 53601.1, not purchased directly from the issuer, shall be purchased either from an institution licensed by the state as a broker-dealer, as defined in Section 25004 of the Corporations Code, or from a member of a federally regulated securities exchange, from a national or state-chartered bank, from a federal or state association (as defined by Section 5102 of the Financial Code) or from a brokerage firm designated as a primary government dealer by the Federal Reserve bank."

The City Treasurer shall investigate institutions that wish to do business with the City in order to determine if they are adequately capitalized, make markets in securities appropriate to the City's needs. Specifically, in order to achieve these objectives:

The Treasurer shall establish a list of qualified securities dealers, and shall obtain a certification submitted by all financial institutions with which the City has an investment relationship on an annual basis. The certification shall state that the institution has reviewed the City's investment management plan and that it will:

- Exercise due diligence in monitoring the activities of its officers and employees engaged in transactions with the City.

- Ensure that all of its officers and employees offering investments to the City are trained in the precautions appropriate to public sector investments.

In order to be qualified for use by the City, a qualifying institution must have:

a) At least three years experience operating with California municipalities. In addition, individual traders or agents representing a dealer must have a minimum of one year experience operating with California municipalities;

b) An inventory of trading securities of at least $10 million.

**SAFEKEEPING AND CUSTODY OF SECURITIES:**

To protect against potential losses caused by the collapse of individual securities dealers, all securities owned by the City, except for investments with LAIF, the San Mateo County Investment Pool, Repurchase Agreements as authorized in this Policy shall be kept in safekeeping by a third party custodian acting as agent for the City under the terms of a custody agreement executed by the bank and by the City. These funds will be held in the City's name. All trades will be executed by delivery vs. payment (DVP). This ensures that securities are deposited to the third party safe keeper prior to release of the City's funds to the broker, for a purchase, and ensures that cash is deposited with the safe keeper prior to release of the City's security for a sale.

**COMPETITIVE PURCHASE AND SALE OF ALLOWED SECURITIES:**

Except for purchases in LAIF, the County Pool, or with a Mutual Fund otherwise authorized in this Policy, any purchase or sale of individual securities shall be made after soliciting at least three quotes from authorized brokers, either verbally or in writing. The Treasurer shall make the purchase or sale from the broker that offers the best executable price for the security. In the case of a tie of two or more brokers, the Treasurer shall select by his/her choice. The Treasurer shall maintain documentation relating to investment quotes for six months.

**ETHICS AND CONFLICTS OF INTEREST:**

The City Treasurer and Deputy City Treasurers shall file a State Form 700 annually, wherein they must disclose all personal assets such as stocks, bonds, properties, business entities, etc., in which said officials may be involved and which could create a conflict of interest with the proper execution of their offices or impair their ability to make impartial decisions.

## REPORTING:

The Treasurer shall present to the City Council a quarterly report showing the types of investments, institutions of investment, dates of maturity, amounts of deposit, current market value for all securities, rates of interest, and other such data as may be required by the City Council.

## INVESTMENT OVERSIGHT COMMITTEE:

The City shall establish an Investment Oversight Committee that shall meet at least quarterly. The committee shall consist of, at a minimum, the City Treasurer, the City Manager, and the Finance Director.

The purpose of the committee is to:

- Review the portfolio on a quarterly basis to ensure compliance with the City's Investment Policy and the requirements of the State of California.

- Make recommendations to Council to change the Investment Policy where appropriate.

- Meet as needed to review the investment portfolio as a result of changes in the marketplace or the economic position of any company or agency that affects the City's investments.

The City Treasurer will report on any recommendations and/or actions taken by the Investment Oversight Committee in his/her quarterly investment reports to the full City Council. The Investment Oversight Committee shall meet and report at least semi-annually with the Finance/Budget/Investment Committee of the City Council.

## INTERNAL CONTROLS:

The Treasurer and the Finance Director are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control of the structure shall be designed to provide reasonable assurance that these objectives are met.

Management responsibility for the investment program is delegated to the elected City Treasurer who shall be responsible for all investment transactions. The Deputy City Treasurer(s), appointed by the City Treasurer, acts at the discretion and direction of the City Treasurer.

## WIRE TRANSFER CONFIRMATIONS:

Due to the need to preserve segregation of duties and checks and balances, all non-recurring, outgoing wire transactions initiated by the City Treasurer or a Deputy Treasurer appointed by the City Treasurer shall be confirmed by the bank with a second person, either a Deputy Treasurer or an authorized person within the Finance Department, prior to the completion of that wire transfer. Recurring/repetitive wire transactions, such as with LAIF, the County Investment Pool, or to meet regular debt service payments, may be exempted from a second confirmation requirement, provided

that a list of recurring wire transfers is established with the bank and that both the City Treasurer and the Finance Director approve the list.

**POLICY REVIEW:**

This Investment Policy shall be reviewed at least annually to ensure its consistency with the overall objectives of safety of principal, liquidity, and yield. The Policy should also be relevant to current law, financial and economic trends, and should meet the needs of the City of South San Francisco.