



City Of Riverbank & Riverbank Redevelopment Agency

Statement of Investment Policy

I. Introduction

The purpose of this document is to provide guidelines for the prudent investment of the City's temporarily idle cash and outline policies for maximizing the efficiency of the City's cash management system. The ultimate goal is to enhance the economic well-being of the City while protecting its pooled cash.

II. Scope

It is intended that this policy cover all short term operating funds and investment activities of the City and the Redevelopment Agency. These funds are accounted for in the annual audit report, and include:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Projects Funds
- Enterprise Funds
- Internal Service Funds
- Fiduciary Funds

This investment policy applies to all City and Redevelopment Agency transactions involving the financial assets and related activity of the above mentioned funds. Any additional funds that may be created from time to time shall also be administered with the provisions of this policy and comply with current State Government Code.

Subject to the prior written consent and approval of the City Manager, City Treasurer or Director of Finance, financial assets held and invested by Trustees or Fiscal Agents are excluded from this policy. However, such assets are nevertheless subject to the regulations established by the State of California pertaining to investments by local agencies as well as the related bond indentures.

III. Prudence (Standard of Care)

The City of Riverbank operates its pooled idle cash investments under the prudent man rule (Civil Code Section 2261, et. seq.) which states, in essence,

“In investing...property for the benefit of another, a trustee shall exercise the judgment and care, under the circumstances then prevailing, which men of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of their capital as well as the probable income to be derived.”

In addition, Government Code Section 53600.3 provides that those persons to whom investment decisions have been delegated are trustees with a fiduciary responsibility to act as a prudent investor.

The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. All persons investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds shall act with care, skill, prudence and diligence under the circumstances then prevailing 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 City.

It is the City’s intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars but sales prior to maturity are permitted.

IV. Objectives

A. Investment Criteria

Government Code Section 53600.5 states:

“When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objective of the trustee shall be to safeguard the principal of funds under its control. The secondary objective shall be to meet the liquidity needs of the depositor. The third objective shall be to achieve a return on the funds under its control”.

The primary objectives, in priority order, of the City’s investment activities shall be safety, liquidity, and yield.

1. *Safety*

Safety of principal is the foremost objective of the investment program. The City's investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. The City shall seek to preserve principal by mitigating two types of risk, credit risk and market risk. Investment decisions should not incur unreasonable credit or market risks in order to obtain current investment income.

- a. Credit Risk: the risk of loss due to failure by the issuer of a security.

The City will minimize credit risk by:

- Limiting investments to the safest types of securities
- Pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors with which the City will do business
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

- b. Market Risk: the risk of market value fluctuations due to overall changes in the general level of interest rates.

The City will minimize market risk by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

2. *Liquidity*

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

3. *Yield (Return on Investment)*

The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- A security swap would improve the quality, yield or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

B. Performance Standards

The investment portfolio shall be managed with the objective of producing a yield meeting or exceeding the average return on the one year U.S. Treasury. This index is considered a benchmark for low to moderate risk investment transactions. Therefore, they comprise a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles. This benchmark will be reviewed thoroughly and may be adjusted as required by market conditions to prevent incurring unreasonable risks to attain yield.

C. Diversification

The investment portfolio shall be diversified to prevent incurring unreasonable and avoidable risks regarding specific security types, individual financial institutions or maturity segments.

D. Public Trust

All participants in the investment process shall act responsibly as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

V. Delegation of Authority

The management and oversight responsibility for the investment program is hereby delegated to the City Treasurer and the Director of Finance who shall monitor and review all investments for consistency with this investment policy. The City Manager, City Treasurer and Director of Finance shall jointly establish procedures to implement and monitor this investment policy. Such procedures shall include explicit delegation of persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the limits of this policy.

VI. Selection of Eligible Financial Institutions and Brokers/Dealers

To provide for optimum yield on the City's portfolio, the City's procedures shall be designed to encourage multiple bids and offers on investment transactions from an approved list of brokers/dealers and financial institutions. The City Treasurer and Director of Finance shall maintain a list of authorized broker/dealers and financial institutions which are approved for investment purposes, in the State of California, and it shall be the policy of the City to purchase securities only from authorized institutions or firms. Such list will include the firm name, contact person, telephone number, and current audited financial statements. The investment guidelines and procedures shall identify the criteria under which brokers and dealers may qualify to conduct business with the City.

VII. Permitted Investment Instruments

Investment of City funds is governed by the California Government Code Sections 16429.1 and 53600 et. seq., as amended. Investments may not have a term or maturity at the time of investment of longer than that authorized by Section 53601 or five (5) years unless the City Council or the Redevelopment Agency has granted prior express authority.

It should be noted that while the Government Code specifies the maximum percentage of the portfolio which may be held in each type of investment at any one time, fluctuations in the portfolio balance will prevent strict adherence to such restrictions. Therefore, percentage limitations shall apply to investments at the time of purchase.

The following investments will be permitted by this policy and are those defined by state and local law where applicable:

A. U.S. Government Issues

Government Code Sections 53601 (b) and (e): Securities of the U.S. Government, or its agencies, pledged by the full faith of the United States for the payment of principal and interest.

A maximum of forty percent (40%) of the City's portfolio may be invested in such securities.

B. Certificates of Deposit and Passbook Savings Account Demand Deposits

Government Code Section 53601: FDIC insured or fully collateralized time certificates of deposit in financial institutions located in California.

California law requires that public funds be collateralized. The depository must secure its public fund accounts by maintaining with the agent of the depository government securities having a market value of at least one hundred ten percent (110%) of the value of the public fund accounts. If a depository uses mortgage-backed securities (i.e. promissory notes secured by first mortgages or first deeds of trust) as collateral for public deposits, the market value of the mortgage-backed securities must be at least one hundred fifty percent (150%) of the value of the public fund accounts.

There is no limit as to the amount of the investment portfolio that may be deposited in certificates of deposit or passbook savings accounts.

C. Bankers Acceptances

Government Code Section 53601 (f): Bills of exchange or time drafts, drawn on and accepted by a commercial bank, which are eligible for purchase by the Federal Reserve System.

Purchases of Bankers Acceptances may not exceed 180 days maturity or 40% of the City's surplus money. Also, no more than 30% of the City's surplus funds may be invested in Bankers Acceptances with any one commercial bank.

D. State Treasurer's Local Agency Investment Fund (LAIF)

Government Code Section 16429.1: LAIF is a diversified investment pool administered by the California State Treasurer. Monies invested with LAIF are pooled with State monies in order to earn the maximum rate of return consistent with safe and prudent treasury management.

The City may invest a maximum of \$20 million pursuant to LAIF policy.

E. Repurchase Agreements (Repo)

Government Code 53601 (j): An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities will be acceptable collateral. All securities underlying Repurchase Agreements must be delivered to the City's custodian bank versus payment. The market value of securities that underlay a Repurchase Agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be reviewed on a regular basis and adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investment in repurchase agreements shall be in compliance if the value of the underlying securities is brought back to 102 percent no later than the next business day.

Repurchase Agreements will be used solely as short term investments not to exceed one year.

F. Money Market Mutual Funds

Government Code Section 53601 (k): 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.

To be eligible for investment pursuant to this subdivision these companies shall either: (1) attain the highest ranking letter or numerical rating provided by not less than two of the three largest nationally recognized rating services or (2) have an investment advisor registered with the Securities and Exchange Commission with not less than five year experience investing in securities and obligations authorized by Government Code Section 53601 and with assets under management in excess of \$500 million.

G. High Grade Commercial Paper

Government Code Section 53601 (g): An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 365 days.

The investment must be rated in the highest short term rating category, as provided by Moody's Investor's Service, Inc. (P-1) or Standard & Poor's Corporation (A-1).

G. High Grade Commercial Paper (continued)

Issuing corporations must be organized and operated in the United States, have \$500 million in total assets, and have at least an “A” rating on debt other than commercial paper.

Purchases of eligible commercial paper may not exceed 1 year in maturity and may not exceed 25% of the City’s surplus money that may be invested.

VIII. Safekeeping of Securities

To protect against fraud or embezzlement or losses caused by a collapse of an individual securities dealer, all securities owned by the City shall be held in safekeeping by a third party bank trust department. The safekeeping institution shall annually provide a copy of their most recent report on internal controls.

All trades executed by a dealer will settle delivery vs. payment (DVP) through the City’s safekeeping agent.

IX. Maximum Maturity

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled so as to permit the City to meet all projected obligations.

Investments that mature more than five years from the date of purchase cannot occur without prior approval of the City Council of Agency Board. As defined in Government Code Section 53601, “no investment shall be made in any security... that at the time of investment has a term remaining to mature in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or as a part of an investment approved by the legislative body no less than three months prior to the investment.”

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds.

X. Ineligible Investments

Certain investments are prohibited under Government Code Sections 53601.6. Security types which are prohibited include, but are not limited to:

- “Complex” derivative structures such as range notes, dual index notes, inverse floaters, leveraged or deleveraged floating rate notes, or any other complex variable rate or structured note.

- Interest only strips that are derived from a pool of mortgages or any security that could result in zero interest accrual if held to maturity.

Purchasing these types of instruments does not coincide with this policy's objectives and would require a thorough review and monitoring of the underlying security.

By virtue of the allowable investment in the State Treasurer's LAIF Pool, the City is investing idle cash with a large amount of government agencies. The Pool is managed by outside administrators and is subject of the Government Codes as well as policies put in place by their governing boards. The pool's investment policy may allow for investment in some of the prohibitions noted above for the City of Riverbank/Riverbank Redevelopment Agency. Investment in the State pool is permitted, assuming a diminutive portion of their portfolio's (10% or less) are tied to the high-risk products noted above. The Treasurer and Director of Finance are responsible for monitoring and reviewing the Pool funds portfolio on an ongoing basis. The City shall take any necessary action should the Pool exceed the allowable 10% limit. The necessary actions may include, but are not limited to, closing the account & transferring the funds to another bank, etc.

XI. Reporting Requirements

Pursuant to Government Code Section 53646, the Treasurer shall render to the City Council/Agency Board a separate monthly investment report, which shall include, at a minimum, the following information for each individual investment:

- Type of Investment Instrument (i.e. Treasury bill, medium term note)
- Issuer Names (i.e., General Electric)
- Purchase Date (trade and settlement date)
- Maturity Date
- Par Value
- Current Rate of Interest
- Purchase Price
- Current market value and the source of the valuation
- Overall portfolio yield based on cost
- Weighted average days to maturity

The monthly report also shall (i) state compliance with of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance, (ii) include a description of any of the City's funds, investments or programs that are under the management of contracted parties, including lending programs, and (iii) include a statement denoting the ability of the City to meet its expenditure requirements for the next three months, or provide an explanation as to why sufficient money shall, or may, not be available.

This monthly report shall be submitted to the City Council and Agency Board within 30 days following the end of the month.

XII. Internal Controls

The Treasurer and Director of Finance are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

XIII. Risk Tolerance

The City recognizes that investment risk can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to minimize and control these risks.

The investments shall be diversified by:

- Limiting investments to avoid an over concentration in securities from a specific issuer or business sector (excluding the Local Agency Investment Fund (LAIF) and U.S. Treasury securities,
- Limiting investments in securities that have higher credit risks,
- Investing in securities with varying maturities, and
- Continuously investing a portion of the portfolio in readily available funds such as LAIF or money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

XIV. Policy Adopting Changes and Updates

The Treasurer and Director of Finance shall annually render to the Council and Agency Board a statement of investment policy, which the Council/Agency shall consider at a meeting.

The policy shall be reviewed annually by the City Manager, City Treasurer, and Director of Finance to ensure its consistency with the global objective of preservation of investment principal, sufficient liquidity, rate of return and relevance to current laws and financial trends. Any modifications to the policy must be approved by the City Council/Agency Board.

Any State of California legislative action that further restricts allowable maturities, investment types or percentage allocations will be incorporated into the City's

Statement of Investment Policy and supersedes any and all previous applicable language. If the City is holding an investment that is subsequently prohibited by a legislative change, the City may hold that investment, if it is deemed prudent by the Treasurer, until the maturity date to avoid an unnecessary loss.