CITY OF SAN LEANDRO
INVESTMENT POLICY STATEMENT

Legislative History:

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CC Res. 2000-121, 07/16/00
CC Res. 2001-214; 12/17/01
CC Res. 2003-144; 05/22/03
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CC Res. 2005-081; 06/20/05
CC Res. 2006-063; 06/19/06
CC Res. 2007-098; 07/16/07
CC Res. 2008-083, 07/21/08
CC Res. 2009-108, 07/20/09
CC Res. 2010-072, 06/21/10
CC Res. 2011-111, 06/20/11
CC Res. 2012-093, 07/16/12
CC Res. 2013-063, 05/20/13
CC Res. 2014-048, 06/02/14
CC Res. 2015-111, 06/15/15
CC Res. 2016-080, 06/20/16
CC Res. 2017-xxx, 06/19/17

I. Policy Statement

The City of San Leandro (City) invests public funds not required to meet current City obligations in compliance with the State of California (State) Government Code and this policy. The City's overall goal is to invest as close to 100% of these funds as possible to provide the maximum return and security while meeting the City's daily cash flow needs.

II. Policy Scope

This investment policy is applicable to all financial assets of the City of San Leandro; the Successor Agency to the Redevelopment Agency of the City of San Leandro; the City of San Leandro Parking Authority; the San Leandro Public Financing Authority; and the San Leandro Economic Development Agency. These assets are accounted for in the City's *Comprehensive Annual Financial Report* in the following funds:

- **General Fund**
- **Special Revenue Funds**
- **Capital Project Funds**
- **Debt Service Funds**
- **Enterprise Funds**
- **Internal Service Funds**
- **Agency Funds**

This policy automatically applies to component units and funds subsequently established by the City of San Leandro.

III. Delegation of Investment Authority/Prudence

California Government Code Sections 53600 and 53646 states that the ultimate responsibility for the prudent investment of public funds rests with the governing body, or City Council. Through City Council resolution No. 94-143 the Council has delegated investment authority to the Finance Director and his/her designee. The Finance Director and his/her designee are trustees and fiduciaries that shall use the "**prudent investor"** standard in managing the City's portfolio. When investing, reinvesting, purchasing acquiring, exchanging, selling, or managing public funds, the 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 City, 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. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

The City may engage the services of one or more external investment managers to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. Such managers must be registered under the Investment Advisers Act of 1940.

IV. Investment Objectives

1. *Safety*: Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

2. *Liquidity*: The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

3. *Yield*: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints for safety and liquidity needs. Return on investment is of least importance compared to the safety and liquidity of the City's assets as described above.

4. *Other:* Investments are to be made that will bear in mind the responsibility of city government to its citizens. Alternative investments which enhance the quality of life will be given full consideration.

V. Investment Criteria

The City invests its funds in accordance with the following criteria:

1. Insure that funds not needed for current City obligations are fully invested at all times.

2. Insure that yield-restricted funds are monitored to ensure compliance with federal arbitrage rebate requirements.

3. Insure that the specific requirements outlined in the Bond Indentures of Trust are maintained.

VI. Ethics and Conflicts of Interest

Officers and employees involved in the investment process will refrain from personal business activity that would conflict with the proper execution of the investment program, or would impair their ability to make impartial investment decisions. Employees and investment officials will disclose to the Finance Director any material interests in financial institutions that conduct business with the City of San Leandro. Furthermore, they will disclose any personal financial/investment positions that could be related to the financial performance of the City, particularly at the time of investment purchases and sales. Investment officers and employees who fail to comply with this disclosure requirement will be subject to administrative action.

VII. Authorized Financial Dealers and Institutions

The Finance Director will maintain a list of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected after conducting a process of due diligence. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule). The City’s Finance Director/Treasurer will determine which financial institutions are authorized to provide investment services directly to the City. Institutions eligible to transact investment business with the City include:

1. Primary dealers and regional dealers;
2. Nationally or state-chartered banks;
3. The Federal Reserve Bank; and,
4. Direct issuers of securities eligible for purchase.

A. Selection of financial institutions and broker/dealers authorized to engage in transactions with the City will be at the sole discretion of the City.

B. All financial institutions which desire to become qualified bidders for investment transactions (and which are not dealing only with the investment adviser) must supply the Finance Director/Treasurer with a statement certifying that the institution has reviewed the California Government Code Section 53600 *et seq*. and the City’s Investment Policy.

C. Selection of broker/dealers used by an external investment adviser retained by the City will be at the sole discretion of the investment adviser.

D. Public deposits will be made only in qualified public depositories as established by State law. Deposits will be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, will be collateralized in accordance with State law.

VIII. Authorized and Suitable Investments

All investments shall be made in accordance with California Government Code Sections 53600 et. seq. and as described within this Investment Policy.

No investment shall be made in any security that has a remaining term to maturity in excess of five years unless City Council has granted express authority to make the investment either specifically or as part of an approved investment program.

Eligible Local Institutions must have received an overall Community Reinvestment Act (CRA) rating of at least “satisfactory” on its most recent evaluation by the appropriate federal financial agency to receive deposits from the City of San Leandro. This applies to banks, savings and loans, and credit unions.

The City's investment portfolio may include the following instruments:

Negotiable Certificates of Deposit (CD's) are a fixed deposit certificate that may be negotiated (traded) to a third party and is issued by a local bank or savings and loan institution. Certificates of Deposit will either be insured by the Federal Deposit Insurance Corporation (FDIC) or be fully collateralized by delivery to a third-party custodian. Securities pledged as collateral shall have a market value of at least 110% of the value of all deposits. Purchases of these instruments may not exceed 30% of the entire portfolio.

Certificate of Deposit Account Registry Service (CDARS) No more than 30% of the total portfolio may be invested in a combination of certificates of deposit including CDARS. The maturity of CDARS deposits does not exceed five years.

U.S. Government Agency Securities include a wide variety of government securities. These securities include U.S. government-sponsored enterprise obligations, such as the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), or any other U.S. government agency. There are no portfolio limitations on the amount.

U.S. Treasury Instruments include bills, notes and bonds or certificates of indebtedness for which the full faith and credit of the United States is pledged for the payment of principal and interest. There are no portfolio limitations on the amount.

The State of California Local Agency Investment Fund (LAIF) (Government Code Section 16429.1). Local agencies may invest in LAIF, a pooled investment fund managed by the State Treasurer's Office. The City may deposit up to the maximum program limit in each City account.

Banker's Acceptances allows for 40% of the City's portfolio to be invested in Banker's Acceptances. These are known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank, with maturities no longer than 180 days. No more than 30% of the entire portfolio may be invested in the banker's acceptances of a single bank. The bank must have an "A" or highest money market rating from a nationally recognized statistical-rating organization (NRSO), such as Standard & Poor's or Moody's.

Commercial Paper is a short-term, unsecured promissory note issued by financial and non-financial companies to raise short-term cash. Up to 25% of the City's portfolio may be invested in commercial paper the highest quality ranking or of the highest rating by a nationally recognized statistical-rating organization (NRSO). The issuer must be a domestic corporation having assets in excess of $500 million and a minimum quality rating of A-1 from Standard and Poor's and P-1 from Moody's for its debt other than commercial paper. Maturities of individual commercial paper securities cannot exceed 270 days and the city may purchase no more than 10% of the outstanding commercial paper of any single issuer. No more than 25% of the portfolio can be invested in commercial paper.

Medium-Term Corporate Notes are corporate bonds and notes of industrial companies, banks, bank holding companies, insurance companies, thrifts and finance companies with a maximum maturity of five years. Issuers must be corporations organized and operating in the United States or by depository institutions licensed by the United States, any state or operating within the United States. Securities issued by corporations must be rated "A" or better by an NRSO. Purchases may not exceed 30% of the City's portfolio.

Repurchase Agreements are agreements between the City and seller for the City to purchase government securities to be resold back to the seller at a specific date and for a specific amount. The legal maximum maturity on these investments is 360 days; however, repurchase agreements are generally short-term investments. Investments in Repurchase Agreements must be collateralized, with collateral limited to Treasury and Agency securities at 102% of market value of principal and accrued interest; and these investments must be supported by a master repurchase agreement with the bank or dealer. Holdings cannot exceed 20% of the City's portfolio.

Reverse Repurchase Agreements are a sale of securities by the local agency with a simultaneous agreement for the local agency to repurchase the securities on or before a specified date. Reverse purchase agreements must comply with statutory requirements and are fully collateralized by delivery to a third-party custodian. The maximum term for reverse repurchase agreements is 92 days. The proceeds of reverse repurchase transactions must be invested in securities having maturities shorter than or equal to the term of the underlying agreement. Reverse repurchase agreements cannot exceed 20% of the City's portfolio.

Passbook Savings Accounts or **Time Certificates of Deposit** are fixed term, non-negotiable investments which are required to be collateralized 110% by eligible pooled U.S. Government Securities. Promissory notes secured by first mortgages or trust deeds used as collateral require a market value of at least 150% of the amount deposited. There are no portfolio limits.

Mutual Funds and Money Market Mutual Funds that are registered with the Securities and Exchange Commission under the Investment Company Act of 1940, provided that:

a. **Mutual Funds** that invest in the securities and obligations as authorized under California Government Code, Section 53601 (a) to (k) and (m) to (q) inclusive and that meet either of the following criteria:
   1. Attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
   2. Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by California Government Code, Section 53601 and with assets under management in excess of $500 million.
   3. No more than 10% of the total portfolio may be invested in shares of any one mutual fund.

b. **MONEY MARKET MUTUAL FUNDS** registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and issued by diversified management companies and meet either of the following criteria:
   1. Have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
   2. Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of $500 million.
   3. No more than 20% of the total portfolio may be invested in Money Market Mutual Funds.

c. No more than 20% of the total portfolio may be invested in these securities.

Other Investment Pools – The City will conduct a thorough investigation of investment pools prior to making an investment. To become eligible, an investment pool will provide the following information to the City:

- ♦ A description of eligible securities and a written statement of investment policy and objectives.
- ♦ A description of interest calculation methods, how interest is distributed, and how gains and losses are treated.
- ♦ A description of safekeeping procedures and settlement processes, how often securities are priced, and how often the program is audited.
- ♦ A description of who are eligible to invest in the program and how often, and any limitations on deposits and/or withdrawals.
- ♦ A schedule for receiving statements and portfolio listings.
- ♦ Any policies regarding the use of reserves or retained earnings by the pool.
- ♦ A fee schedule and a description of how and when fees are assessed.
- ♦ Any policies regarding the pool's eligibility for bond proceeds if applicable.

Securities Issued by the City of San Leandro and its Agencies. The City may elect to sell or purchase its securities through secondary markets when conditions are favorable.

Asset-Backed, Mortgage-Backed, Mortgage Pass-Through Securities, and Collateralized Mortgage Obligations, provided that:

- ♦ The securities are rated "AA" or higher by a NRSO.
- ♦ They are issued by an issuer having long-term debt obligations rated "A" or higher by at least one NRSO.
- ♦ No more than 20% of the total portfolio may be invested in these securities.
- ♦ No more than 5% of the portfolio may be invested in any single Asset-Backed or Commercial Mortgage security issuer. There is no issuer limitation on any Mortgage security where the issuer is the US Treasury or a Federal Agency/Government-sponsored Enterprise (GSE).
- ♦ The maximum legal final maturity does not exceed five (5) years.

Supranational Securities, provided that:

- Issues are unsubordinated obligations issued by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB).
- The securities are rated "AA" or higher by a national recognized statistical rating organization.
- No more than 30% of the total portfolio may be invested in these securities.
- No more than 10% of the portfolio per issuer.
- The maximum maturity does not exceed 5 years.

See Appendix A *City of San Leandro Summary of Eligible Investments* on pages 9 and 10 for a tabular listing of the restrictions regarding authorized investments.

Competitive Transactions

All investment transactions shall be conducted on a competitive basis with quotes from a minimum of three brokers or financial institutions when possible.

Safekeeping

Purchased securities are held in third party safekeeping by the trust department of the City's bank or other designated third party in the City's name and control. All security transactions entered into by the City will be conducted on a delivery-versus-payment (DVP) basis and evidenced by a receipt issued by the safekeeping agent.

Collateralization

An independent third party with whom the City of San Leandro has a current custodial agreement will always hold collateral. A clearly marked evidence of ownership must be supplied to the City.

Internal Control and Review

The Finance Director will establish an annual review process to ensure compliance with the established Investment Policy and routine reporting requirements.

Performance Standards

The investment portfolio shall be designed with the overall objective of obtaining a total rate of return throughout economic cycles, commensurate with investment risk constraints and cash flow needs.

The investment performance objective for the portfolio shall be to earn a total rate of return over a market cycle which is approximately equal to the return on a Market Benchmark Index of similar risk characteristics as that of the City's investment portfolio.

Other market investments that may be used as yield comparisons include:

- The State of California Local Agency Investment Fund (LAIF)
- The two-year U.S. Treasury Bill
- The five-year U.S. Treasury Note

Reporting

This policy will be reviewed annually with the City Council to ensure compliance with the objectives of safety, liquidity and yield and adherence with applicable laws. The City Council will review and approve all changes to this policy statement.

California Government Code Section 53646 states that the Finance Director may render a quarterly report on the status of the City's investment portfolio to the City Manager and the City Council within 30 days after the end of the calendar quarter. The report will provide detailed information regarding the type of investments, the amount invested with various institutions, purchase and maturity dates, and interest yield on all investments. The report shall state if the City's investments are in compliance with this policy and if the City will be able to meet its cash obligations during the next six-month period. The Finance Director, will submit a monthly transactions report on the portfolio's activity to the City Manager and City Council consistent with the requirements of the State Code.

Appendix A
City of San Leandro
Summary of Eligible Investments

Investment Type	Maximum Maturity	Maximum Amount	Other Requirements
Negotiated Certificates of Deposit (CDs) and CDARs	5 Years	30 % of Portfolio	CDs require Market Value of Collateral at Least 110% of Deposit if not FDIC insured; CDARs are FDIC insured
U.S. Government Agency Securities	5 Years, Longer Maturities if Approved by Council	None	None
U.S. Treasury Securities	5 Years, Longer Maturities if Approved by Council	None	None
State Local Agency Investment Fund (LAIF)	N/A	Maximum Program Limits	None
Bankers Acceptances	180 Days	30 % per Issuer 40% of Portfolio	Minimum Rating of "A" from Moody's or S&P
Commercial Paper	270 Days	10% of Issuer's Paper 25% of Portfolio	Prime Quality Rating of "A-1" and "P-1" from S&P and Moody's Respectively
Medium Term Corporate Notes	5 Years	30% of Portfolio	Minimum Rating of "A" from Moody's or S&P

Appendix A (continued) City of San Leandro Summary of Eligible Investments

Investment Type	Maximum Maturity	Maximum Amount	Other Requirements
Repurchase Agreements	1 Year	20 % of Portfolio	Master Agreement & Fully Collateralized
Reverse Repurchase Agreements	92 Days	20% of Portfolio	Proceeds Must be Invested in Securities Having Maturities Shorter Than or Equal to Term of Underlying Agreement
Passbook Accounts	5 Years	None	Minimum of 110% Collateral if Secured by U.S. Government Securities, 150% if Secured by Mortgage or Trust Deed
Mutual Funds & Money Market Mutual Funds	N/A	20% per Money Market Mutual Fund, 10% per Mutual Fund; 20% of Portfolio in aggregate	Highest Rating from at Least Two Rating Agencies and/or Advisor with 5 Years of Experience Managing Assets in Excess of $500 Million
Other Investment Pools	N/A	N/A	Must Provide Comprehensive Information Prior to City Investment
City Issued Securities	N/A	N/A	Usually Purchased When Originally Issued

Appendix A (continued) City of San Leandro Summary of Eligible Investments

Investment Type	Maximum Maturity	Maximum Amount	Other Requirements
Asset-Backed, Mortgage-Backed, Mortgage Pass-Through Securities, Collateralized Mortgage Obligations	5 Years	20% of portfolio	Securities rated "AA" or higher by one Nationally Recognized Statistical-rating Organization (NRSO) Issuer rating of "A" or higher by one NRSO No limitation on mortgage securities when issuer is US Treasury or Agency
Supranational Securities	5 Years	30% of portfolio 10% per issuer	Permitted issuers are International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank

Appendix B
Glossary of Technical Terms

Banker's Acceptance (BA) – A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill.

Broker – A broker, as opposed to a dealer, brings buyers and sellers together in exchange for an agreed upon commission or fee. A broker is not a principal party to the transaction.

Certificate of Deposit (CD) – A time deposit with a specific maturity date and specific interest rate as evidenced by a certificate.

Certificate of Deposit Account Registry Service (CDARS) – A private sector entity that assists in the placement of certificates of deposit with one or more commercial banks, savings banks, savings and loans associations, or credit unions that are located in the United States, for the City's account.

Collateral – Securities pledged by a bank or other financial institution to secure repurchase agreements, certificates of deposit and deposits of public monies.

Commercial Paper – Negotiable short-term promissory notes issued by larger, well-known corporations.

Dealer – A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for its account.

Delivery Versus Payment – a method of purchasing securities where the security is delivered to the safekeeping party in exchange for cash payment.

Federal Deposit Insurance Corporation (FDIC) – A federal agency that insures bank deposits – currently up to $100,000 per deposit.

Federal Farm Credit Bank (FFCB) – A federal government sponsored bank that provides loans and letters of credit that support United States agriculture.

Federal Home Loan Banks (FHLB) – Federal government sponsored wholesale banks that lend funds and provide banking services to member commercial banks, thrift institutions, credit unions and insurance companies.

Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac") – A federal corporation that provides low cost residential mortgage funds to qualified borrowers.

Federal National Mortgage Association (FNMA or "Fannie Mae") – A federal corporation working under the auspices of the U.S. Department of Housing and Urban Development (HUD). FNMA is the largest single provider of residential mortgage funds in the United States.

Appendix B (continued)
Glossary of Technical Terms

Liquidity – A measure of how easily an asset can be converted to cash with minimal loss of value. Securities issued by the U.S government and its agencies are highly liquid because they have established and active markets.

Local Agency Investment Fund (LAIF) – A pooled investment fund maintained by the California State Treasurer consisting of deposits from the State and from California political subdivisions.

Market Benchmark Index – A performance benchmark is a partial market index (a subset of the overall market) which reflects the mix of securities allowed under a specific investment policy.

Maturity – The date that the principal or stated value of an investment becomes due and payable.

Money Market – The market where short-term debt securities such as treasury bills, commercial paper and banker’s acceptances are issued and traded.

Portfolio – A collection of assets (securities, real property, buildings, etc.) held by an investor.

Primary Dealer – A group of government securities dealers subject to the informal oversight of the Federal Reserve Bank of New York.

Primary Market - The market where investment securities are purchased and sold when they are first issued.

Prudent Investor Standard or Prudent Person Rule – An investment standard that requires an investor having trustee or fiduciary responsibility to select securities that would be bought by a prudent person of discretion and intelligence who is seeking capital preservation and a reasonable income.

Repurchase Agreement (“Repo”) – An investment transaction where the holder of securities sells the securities to an investor with an agreement to repurchase them for a fixed price on a fixed date. In effect, the buyer lends the seller money for the term of the agreement and the agreement is structured to compensate the buyer for this.

Reverse Repurchase Agreement (“Reverse Repo”) – An investment transaction where an investor buys securities from another investor with an agreement to resell them for a fixed price on a fixed date.

Safekeeping – A service provided by banks and other financial institutions whereby securities and/or collateral are held for protection and safety.

Appendix B (continued)
Glossary of Technical Terms

Secondary Dealer - Securities dealers who purchase and sell securities that have been previously issued.

Secondary Market – The market where securities are purchased and sold after they have been issued.

Securities and Exchange Commission (SEC) – A federal agency created by Congress to protect investors in securities transactions by administering securities legislation.

Supra National Securities - US dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB), the long-term obligations of which are rated at least "AA-/Aa-" or equivalent by at least two of the three rating agencies (S&P, Moody's, and Fitch). No more than 10 percent of the City's portfolio may be invested in eligible Supra National securities. The maximum maturity of Supra National securities is five (5) years. No more than 10 percent of the portfolio may be invested in eligible Supra National securities.

Treasury Bills (T-Bills) – A non-interest bearing discount security issued by the U.S. 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 U.S. Treasury securities having initial maturities of more than ten years.

Treasury Notes – Medium-term coupon-bearing U.S. Treasury securities having initial maturities of two to ten years.

Uniform Net Capital Rule – Securities and Exchange Commission requirement that member brokers and dealers maintain a maximum ratio of indebtedness to liquid capital of fifteen to one. Indebtedness includes all money owed to other entities including loans and commitments to purchase securities. Liquid capital includes cash and other assets easily converted to cash.

Yield – The rate of annualized income return on a security, expressed as a percentage of the security's purchase price.