RESOLUTION NO. 2016-0291

Adopted by the Sacramento City Council

August 16, 2015

APPROVING THE INVESTMENT POLICY GOVERNING THE INVESTMENT OF CITY'S POOLED TREASURY FUNDS AND DELEGATING INVESTMENT AUTHORITY TO THE CITY TREASURER

BACKGROUND

A. Sound investment practices are facilitated by the preparation of written governing policy statements. Such policies should cover all substantive aspects of the investment of funds. The City Treasurer has prepared a comprehensive Investment Policy document pursuant to which the City, acting through his office, will manage and conduct investment of the City's pooled treasury funds. The Investment Policy is attached hereto as Exhibit A.

B. In furtherance of the prudent management of the City's treasury pools, the Investment Policy is in compliance with State law provisions establishing investment objectives and setting forth permissible investment of public funds not required for immediate expenditure.

C. Section 73 of the Sacramento City Charter vests the City Treasurer with authority to deposit and invest funds of the City treasury, subject to the annual delegation of investment authority from the City Council to the City Treasurer pursuant to state law.

D. The delegation of investment authority and responsibility from the City Council to the City Treasurer will allow the City Treasurer and his staff to continue the prudent investment of the City's pooled treasury funds and the effective and efficient support of the City's efforts to meet its cash flow needs.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

Section 1. The Investment Policy submitted by the City Treasurer, attached hereto as Exhibit A, is hereby approved.

Section 2. The City Council, pursuant to Government Code section 53607, delegates to the City Treasurer for a period of twelve (12) months the authority to invest the City's pooled treasury funds in accordance with the Investment Policy.

Section 3. Exhibit A is part of this resolution.

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Exhibit A – Investment Policy

Adopted by the City of Sacramento City Council on August 16, 2016, by the following vote:

Ayes: Members Ashby, Carr, Guerra, Hansen, Harris, Jennings, Schenirer, and Warren

Noes: None

Abstain: None

Absent: Mayor Johnson

Attest:

Shirley Concolino

Digitally signed by Shirley Concolino
DN: cn=Shirley Concolino, o=City of Sacramento, ou=City Clerk, email=sconcolino@cityofsacramento.org, c=US
Date: 2016.08.25 14:44:46 -07'00'

Shirley Concolino, City Clerk

Exhibit A

CITY OF SACRAMENTO
INVESTMENT POLICY

The purpose of this document is to set forth the investment and operational policies for the management of the public funds of the City of Sacramento. These policies are designed to ensure the prudent management of public funds under management by the Sacramento City Treasurer.

Although the Sacramento City Charter generally provides the City Treasurer with the authority to deposit and invest funds in the City Treasury, undertaking of the investment activities by the City Treasurer is subject to the annual delegation of investment authority from the City Council as the body being primarily responsible for the investment of City funds. Accordingly, these policies are applicable to the management of City treasury funds as that task may be delegated to the City Treasurer.

A copy of this policy statement will be provided to all investment brokers and dealers and others in related fields doing business with the City of Sacramento, and will be provided to other interested parties on request. In addition, this policy statement will be posted to the City Treasurer's page of the City's internet website.

An entity retained to provide investment-related services to the City of Sacramento shall not render services unless and until it confirms, in writing, that it has received and reviewed this policy statement, and is prepared to implement its terms, as applicable to the services to be provided by the entity.

I. Governing Authority; Scope

Section 73 of the Sacramento City Charter vests the City Treasurer with authority to deposit and invest funds of the City treasury, subject to the annual delegation of investment authority from the City Council to the City Treasurer pursuant to Government Code section 53607. These policies shall apply to the City Treasurer's investment of City treasury funds.

The City Treasurer investment program for all treasury funds shall be operated in conformance with applicable federal, state, and other legal requirements. This policy statement is intended to conform to Government Code sections 53600, et seq, and interpretation of these policies shall be consistent with those statutes.

II. Objectives

A. Primary Objectives

The primary objectives of investment activities, in order of priority, are safety, liquidity, and yield:

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 is to mitigate credit risk and interest rate risk.

(a) Credit Risk. Credit risk is the risk of loss due to the failure of the security issuer or backer. The City will minimize credit risk by:

(i) Limiting investments to the types of securities listed in Section VI of this Investment Policy

(ii) Re-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business in accordance with Section IV.

(iii) Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

(b) Interest Rate Risk. Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The City will minimize interest rate risk by:

(i) 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

(ii) Investing operating funds primarily in shorter-term securities, money market mutual funds, the Local Agency Investment Fund ("LAIF") managed by the State of California, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy.

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). Alternatively, a portion of the portfolio may be placed in money market mutual funds or LAIF which offer same day liquidity for short-term funds.

The staff of the City Treasurer's Office shall (i) monitor the City's budget formation and approval process and (ii) actively engage with City staff to assess and manage cash flow needs of the City.

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 and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the low level of risk being assumed.

Securities shall generally be held until maturity with the following exceptions:

(a) A security with declining value may be sold early to minimize loss of principal.

(b) A security swap would improve the quality, yield, or target duration in the portfolio.

(c) Liquidity needs of the portfolio require that the security be sold.

(d) Where the sale of the security to realize capital gains is advisable in the judgment of the investment officers.

B. Other Objectives

1. *Pooling of Funds*

Except for cash in certain restricted and special funds, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds proportionately based on their respective participation and in accordance with generally accepted accounting principles. The pooling of funds shall have no effect on the legal character of the pooled funds, i.e. funds whose use is restricted by law shall remain restricted and cannot be used as part of the City's general fund.

2. *Local Considerations*

Where possible, as a secondary objective, funds may be invested for the betterment of the local economy. The City Treasurer may accept a proposal from an eligible institution that provides for a reduced rate of interest provided that such institution documents the use of deposited funds for local community development projects.

3. *Favored Investments*

Investments are encouraged in entities that have demonstrated significant commitment and cooperation (a) with foreclosure prevention efforts, including, without limitation, temporary moratoriums on foreclosures, renegotiation of the principle mortgage balances to reflect current values, and other good faith negotiations with homeowners in regard to delinquent mortgages, and/or (b) in offering free or low-cost banking services to low- and moderate-income residents who are part of the traditionally "unbanked" or "under-banked" population. The City Treasurer may take into consideration the level of effort an entity expends in either the foreclosure relief or community banking areas, or both, when considering competing investments. If the City Treasurer is satisfied with the record of an entity in regard to such efforts, then the Treasurer's investment staff may invest in the securities of the entity, provided that the investment is otherwise consistent with the requirements of this Investment Policy statement.

III. Standards of Care

A. *Prudence*

In accordance with Government Code section 53600.3, 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. Investment officers acting in accordance with written procedures

developed by the City Treasurer and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided extraordinary deviations from expectations are reported by subordinate investment officers to the City Treasurer in a prompt fashion and that the sale of securities is carried out in accordance with the terms of this policy.

Pursuant to the "prudent person" standard, investment officers 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. Funds shall be managed not for speculation where the sole goal of a transaction is to increase principal balances, but for investment intended to earn a reasonable rate of return on invested funds, considering the probable safety of their capital as well as the probable income to be derived. Despite that investment transactions are undertaken with care pursuant to the “prudent person” standard, it is recognized that invested funds are subject to the vagrancies of the markets beyond the control of the investment officers.

B. *Ethics and Conflicts of Interest*

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and investment officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

Investment officers shall file State Fair Political Practices Commission’s Statement of Economic Interests and make the disclosures required by the City’s conflict of interest policies.

C. *Delegation of Authority*

Authority to manage the City treasury investment program is granted to the City Treasurer pursuant to Sacramento City Charter section number 73, unless the Charter specifically indicates otherwise, subject to annual delegation of investment authority by the City Council pursuant to Government Code section 53607. Pursuant to the City Charter, the City Treasurer also is authorized to appoint deputies and employees, as prescribed by Council resolution, to implement the investment program. The City Treasurer and those employees appointed by the Treasurer to perform investment activities pursuant to these policies shall be referred to herein collectively as “investment officers.”

Investment officers shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy (“Investment Procedures Manual”). Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures manual. The investment officers shall be responsible for all transactions undertaken and shall establish a system of controls to regulate their activities.

IV. Authorized Financial Institutions, Depositories, and Broker/Dealers

A. Selection

Financial institutions and depositories involved in implementing the City Treasurer's investment activities are selected on a competitive basis in order to obtain high quality services by reliable, reputable and stable entities. The competitive process may be formal or informal, as determined by the City Treasurer in his or her discretion, with the objective of obtaining the quality of services necessary to serve the best interests of the City and relevant stakeholders, with services performed at competitive fees and rates. Such processes may occur from time to time by the City Treasurer's Office whether at the time the City Treasurer contracts for the general banking services or otherwise. The firm or firms providing investment-related services may or may not be, at the discretion of the City Treasurer, the same firm providing general banking services. Among the factors that the City Treasurer may consider in obtaining such services are (i) minimum qualifications pertaining to capacity, satisfaction of requirements to conduct required business, i.e. licenses, permits, registrations, certifications, etc.; (ii) capitalization; (iii) insurance and bonding; (iv) safekeeping and custodial experience; (v) status in good standing; (vi) ability and capacity of the firm to provide a full range of services as may be required by the City Treasurer; (vii) extent of the value added by an entity over the services provided by firms then-providing investment-related services to the City Treasurer's Office; and (viii) other attributes as may be determined by the City Treasurer from time to time. The City Treasurer may determine the number and nature of firms to be retained to provide investment-related services based upon the volume of existing and projected investment work. Those firms that are selected to execute transactions on behalf of the City shall do so in a good faith manner and in the best interests of the City, and shall disclose to and advise the investment officers of material facts that bear upon the pricing of a given transaction order given by investment officers. All financial institutions executing investment transactions shall satisfy the requirements of Government Code section 53601.5. All depositories shall satisfy the institutional qualifications and security requirements described in Government Code sections 53648 et seq.

B. *Performance Review*

All financials institutions and depositories shall maintain the qualifications and attributes deemed appropriate by the City Treasurer, including, but not limited to those enumerated in subsection A above, and shall perform their duties in a satisfactory manner. The City Treasurer, at his or her discretion, shall conduct periodic performance reviews to ensure the institutions and depositories are providing services in the best interests of the City.

V. Safekeeping and Custody

A. *Delivery vs. Payment*

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

B. *Safekeeping*

Securities will be held by an independent third-party custodian selected by the City Treasurer. The inventory and value of cash and securities held by the custodian will be reconciled on a daily basis. The

custodial institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

C. *Internal Controls, Investment Procedures Manual*

The City Treasurer is responsible for establishing and maintaining an internal control structure designed to guide the activities of the investment officers to ensure that the assets of the City are protected from loss, theft or misuse. Details of the internal controls system shall be documented in the Investment Procedures Manual and shall be reviewed and updated annually, as needed. 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. The internal controls structure shall address the following points:

1. Prevention of collusion
2. Separation of transaction authority from accounting and recordkeeping
3. Custodial safekeeping
4. Avoidance of physical delivery securities
5. Clear delegation of authority to subordinate staff members
6. Written confirmation of transactions for investments and wire transfers
7. Development of a wire transfer agreement with the lead bank and third-party custodian

Accordingly, the City Treasurer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures or alternatively, compliance should be assured through the City annual independent audit.

VI. Suitable and Authorized Investments

A. *Investment Types*

Allowable investments of funds not required for the immediate use by the City are limited to those described in Government Code sections 16429.1 (Local Agency Investment Fund), 53601 (investment of surplus), 53601.8 (certificates of deposit), 53635 (purchase of commercial paper by pools) and 53638 (bank deposits), as such statutes may be amended or renumbered from time to time. These allowable investments, and their permitted amounts and attributes, are set forth in a summary prepared and updated from time to time by the California Debt and Investment Advisory Commission ("CDIAC") entitled, "Allowable Investment Instruments Per State Government Code, Applicable To All Local Agencies," included CDIAC's "Local Agency Investment Guidelines" publication that may be located at http://www.treasurer.ca.gov/cdiac/LAIG/guideline.pdf

B. *Extended Maturities*

The investment officers will observe the maximum maturity term of five years on various of the allowable investments. However, where a particular investment is found by the investment officers to be advantageous and consistent with these policies, but for a nominal exceedance of a 5-year maximum maturity caused by effect of the security's issuance and maturity dates, or the settlement date of the transaction, or both, they are authorized to invest in the following obligations with remaining maturities of five (5) years, plus not more than thirty (30) calendar days: U.S. Treasury obligations, obligations of California or other states, California local agency obligations, U.S. Agency obligations and medium-term notes. The City Treasurer will provide notice to the City Council of such investments within periodic investment reports made to the Council. See, Section VIII.A. Pursuant to Government Code section 53601, investment officers shall not make investments in instruments with maturities longer than five (5) years, plus thirty (30) calendar days, without prior approval of the City Council.

C. *Securities Lending*

The investment officers at their discretion may engage in securities lending activities pursuant to securities lending agreements (as defined in Government Code section 53601(j)(5)(D)) provided that the following are satisfied:

1. Securities lending transactions are to be governed by agreements entered into by the City Treasurer and the agent or agents the City Treasurer engages to perform such transactions provided that such agreements

    (a) comply with the requirements of Government Code section 53601(j), and

    (b) require the payment of cash collateral equal to or greater than 102% of the market value of the loaned security at the time of the loan.

2. The securities lending agreements may allow for the use of cash collateral for the reinvestment in securities that

    (a) comply with the requirements of Government Code section 53601(j)(3)(D), and

    (b) are securities whose direct investment is authorized by Government Code section 53601 and these policies,

    (c) provided that nothing herein shall preclude the City Treasurer from entering into securities lending agreements that reduces the scope of investments made with cash collateral to something less than that allowed under subsections (a) and (b) above.

VII. Investment Parameters

A. *Diversification*

The City shall diversify its investment portfolio. To minimize risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or type of securities, all cash and cash equivalent

assets in all City funds shall be diversified by maturity, issuer, and class of security. Diversification strategies shall be determined and revised on an ongoing basis by the investment officers for all funds covered by these investment policies. In establishing specific diversification strategies, these investment policies shall apply. The investment officers shall emphasize that portfolio maturities will be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.

B. *Cash Management Funds*

1. Liquidity shall be assured through practices ensuring that the payroll dates and dates of large disbursements are covered through maturing investments or marketable U.S. Treasury bills.

2. Positions in securities having potential default risk shall be limited in size pursuant to the maximum limits set forth in Government Code section 53601. See Attachment A. Such securities include the following: Commercial paper; negotiable certificates of deposit, and Banker's Acceptances.

3. Risks of market price volatility shall be controlled through maturity diversification.

4. Liquidity risk: Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as LAIF, money market funds, overnight repurchase agreements, and/or marketable securities that can be sold to raise cash in one day's notice, to ensure that appropriate liquidity is maintained to meet ongoing obligations.

C. *Competitive Bids*

The investment officers shall obtain competitive bids from at least two brokers or financial institutions on all purchases of investment instruments purchased on the secondary market for consideration in excess of $15 million per purchase transaction.

VIII. Reporting

A. *Investment Reports*

The City Treasurer shall present to the City Council, the City Manager and the City's internal auditor monthly investment reports that include the content described in Government Code sections 53607 and 53646(b).

B. *Marking to Market*

For purposes of preparation of the investment reports, the market value of the portfolio shall be calculated. In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

C. *Performance Standards*

The investment portfolio will be managed in accordance with the parameters specified within this statement of policies. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken.

IX. Policy Considerations

A. *Exemption*

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy, provided that the City Treasurer may take steps he or she deems appropriate to address non-compliant investments in the best interest of the City and pool participants. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

B. *Amendments*

This policy shall be reviewed annually by the investment officers. Any change must be approved by the City Treasurer, followed by review and consideration by the City Council pursuant to Section X of these policies.

X. City Council Consideration of Investment Policy

This policy shall be reviewed and considered by the City Council on an annual basis pursuant to Government Code section 53646(a)(2).

XI. Miscellaneous

A. *Statutory References*

All statutory references cited in these policies shall refer to the statute as it may be amended or renumbered from time to time.