

CITY OF REDWOOD CITY
INVESTMENT POLICY AND GUIDELINES
May 2011

I. SCOPE

Scope: This policy shall cover all investments for all City and Redevelopment Agency (hereinafter all references to City shall include the City, Redevelopment Agency, Port of Redwood City, and any component units) funds in the custody and control of the City Treasurer (and funds controlled by fiscal agents acting under the direction of the City Treasurer) and which are accounted for in the City's Comprehensive Annual Financial Report except for employee retirement funds (Deferred Compensation funds, California Public Employee Retirement funds and funds held for other post employment benefits), which are administered separately.

II. STANDARD OF CARE

Prudence: All investments shall be made within the policy framework of liquidity and safety with judgment and care which a person of prudence and intelligence would, under circumstances when prevailing, exercise in the management of his/her affairs.

Ethics: Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions. All investment personnel shall comply with reporting requirements of applicable state laws including annual filing of Statements of Economic Interests. While managing the portfolio, the Treasurer and staff shall avoid any transaction that might impair public confidence in the City.

III. OBJECTIVE

The primary investment objectives of this policy in order of priorities are:

Safety: Safety of the principal shall be the top priority in consideration of any investment undertaken by the City Treasurer. The portfolio shall be so diversified that the losses, if any, on particular securities or from an institute shall be offset by the revenue generated from other investments. The intention is to hold investments until maturity unless the City will realize a profit by liquidating the investment prior to maturity. The City shall seek to preserve principal by mitigating credit risk and interest rate risk.

Credit risk - defined as the loss due to failure of the issuer of a security, shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that failure of any one issue does not unduly harm the City's capital base and cash flow.

Interest rate risk - defined as market value fluctuations due to overall changes in the general level of interest rates will be mitigated by structuring the investment portfolio so that securities

mature to meet the cash requirements for ongoing operations, thereby avoiding the need to sell securities prior to maturity.

Liquidity: The Treasurer shall keep the portfolio sufficiently liquid to meet the operating and capital needs of the City which can be reasonably anticipated from his/her experience of the City operations and adopted budget. He/she shall also review the various construction and other contracts the City has entered into to anticipate cash needs.

Return on Investment: Within the safety and liquidity constraints, investment portfolio shall be designed to attain the market rate of return.

IV. AUTHORITY AND DELEGATION

The authority to invest City funds is assigned to the City Treasurer (Director of Finance) pursuant to section 34 of the Charter of Redwood City and section 2.33.1 of the Redwood City code of ordinances.

The Treasurer will be assisted in the management of City funds by a Deputy Treasurer (designated by the Treasurer). The Deputy Treasurer will be a Finance Department employee whose primary treasury responsibilities will be supporting the day-to-day treasury management activities of the City.

V. CASH FLOW AND AVAILABILITY

An average amount of six months cash flow is to be maintained in immediately available investments, such as the State Treasurer's Local Agency Investment Fund or a similar liquid instrument. This may include commercial paper. Weekly analysis of cash flow will serve as a basis for determining the maturity date of investments.

The Treasurer and Deputy Treasurer shall certify each month that enough liquid resources (including maturities) are available to meet the next six months cash flow requirements.

VI. ACCEPTABLE INVESTMENT INSTRUMENTS

Unless expressly approved in advance by the City Council all investments must be made in accordance with this policy and State of California Government Code Sections 53600 et.seq. The Council may, as part of a bond issuance, direct or authorize staff to invest bond reserve funds in investment instruments authorized by the California Government Code that are not contained within this policy.

The City investment portfolio may include the following instruments:

- Certificates of Deposit purchased from banks
- Bankers Acceptances
- Treasury Bills, Notes, and Bonds
- Government Agency Securities (e.g. Federal National Mortgage Association, Government National Mortgage Association, Federal Farm Credits, and Federal Home Loan Bank Board)

- Commercial Paper
- State of California Local Agency Investment Fund (LAIF)
- Passbook Savings Accounts
- County of San Mateo Investment Pool
- Money Market Certificates
- Money Market Funds
- Corporate Notes

VII. AMOUNTS TO BE INVESTED

The City will invest all funds not required for its immediate needs.

VIII. GUIDELINES BY TYPE OF INVESTMENT

A. CERTIFICATES OF DEPOSIT:

Cash will be invested only in FDIC insured or fully collateralized certificates of deposit. Collateral for a given investment must be 110% of principal for government securities collateral and 150% of principal for first mortgage collateral. No more than 7.5% of the City portfolio, not to exceed \$3 Million shall be invested in any one institution. An institution must meet the following criteria to be considered by the City:

For investments greater than \$250,000, the institution must maintain \$100 Million in assets. For investments greater than \$300,000, the institution must maintain at least \$300 Million in assets.

The City will not invest in any institution less than five years old.

The institution must maintain a net worth to asset ratio of at least 3% and a positive earnings records for the immediate past three years.

The institution must have on file with the City a current FDIC call report (banks) or FHLB report.

The institution must be located in California.

The institution must have a jumbo certificate to total assets ratio of less than 50%.

The above requirements will be waived whenever the total amount on deposit with any institution does not exceed \$250,000; providing, that the institution is insured by the Federal Deposit Insurance Corporation (FDIC).

B. BANKERS ACCEPTANCES:

The City will only invest through the 15 largest banks in the United States or the 100 largest banks in the world (in terms of assets). The maximum investment with any one institution will not exceed \$3 Million (with a maximum maturity of 180 days).

C. TREASURY BILLS, NOTES, AND BONDS:

The City will require safekeeping documentation of the treasury instrument in an acceptable safekeeping account in the City's name in accordance with Section XI. The maximum maturity on a treasury instrument will be three years.

D. GOVERNMENT AGENCY SECURITIES:

The City will require physical delivery of these securities to an acceptable safekeeping account in the City's name in accordance with Section XI. Examples of these securities include Government National Mortgage Association, Federal National Mortgage Association, Federal Land Bank, Federal Home Loan Bank Board, and Federal Farm Credit Banks.

E. COMMERCIAL PAPER:

The City will require safekeeping documentation of the security in an acceptable safekeeping account in the City's name. Commercial paper will be used solely as a short term investment not to exceed 15 days. A rating of Standard and Poors A-1 or Moodys P-1 is required. The City will only invest in the largest 15 banks (in terms of total assets) in the United States. The investment in any one institution will not exceed \$1 Million.

F. STATE LOCAL AGENCY INVESTMENT FUND (LAIF):

The investment in LAIF may not exceed the maximum amount permitted by State regulation.

G. PASSBOOK SAVINGS ACCOUNTS:

Savings accounts may be maintained for amounts under \$100,000 that are received too late in the day to invest in other instruments.

H. SAN MATEO COUNTY INVESTMENT POOL:

The investment with the County of San Mateo Investment Pool shall not exceed \$40 Million per account.

I. MONEY MARKET FUNDS:

Not more than 10% of the portfolio may be invested in money market funds. Funds must comply with the investment restrictions of the California Government Code Section 53630 et seq., and be issued by diversified management companies or mutual funds. They shall be rated in the highest rating category of at least two of the three nationally recognized rating services (e.g., Moody's P-1 or S&P AAAM), and must have in excess of \$500,000,000 in assets under management.

J. CORPORATE NOTES

Not more than 30% of the portfolio may be invested in Corporate Notes. Corporate Notes must be rated "A" or better by Moody's or Standard and Poor's rating services at the time of purchase. No more than \$5 million may be invested in any single issuer.

IX. MATURITY OF INVESTMENTS

With the exception of Treasury Notes, Treasury Bonds, Corporate Notes, and Agencies, the maturity of a given investment will not exceed one year. Treasury Notes, Treasury Bonds, Corporate Notes, and Agencies may be purchased for a period not to exceed three years.

Approximately 50% of idle funds will be placed in investments that can be sold for face value in the open market in the event of an emergency.

Not more than 50% shall be invested for more than one year and not more than 25% of the portfolio for more than two years.

X. USE OF SECURITIES DEALERS AND BROKERS

The City will utilize the services of brokers and security dealers only if the firm is recognized as a primary dealer by the Federal Government. No public deposit shall be made except in a state qualified depository.

XI. FINANCE COMMITTEE AUTHORITY AND REPORTS TO COUNCIL

An investment committee consisting of the Finance Director and staff members of the Finance Department will meet regularly to review the City investment portfolio daily cash reports and anticipated cash requirements in selecting investment instruments for idle City funds.

The City Council Finance Committee will meet as needed (at least once a year) to insure that City investments are consistent with the adopted policy and to consider changes in the policy if deemed necessary.

Pursuant to the Redwood City Code Section 2.33.2 Council will receive a detailed monthly listing of all investments in the City portfolio. This report shall also include:

Current Fed Funds Rate as of the last day of the month. (Any new investments made during the month which indicates an interest rate varying from the Fed Funds Rate by 2% or more must be explained.)

Certification signed by the Treasurer and Deputy Treasurer stating"These are all the securities in which the City funds, including all Trust Funds and Oversight Agencies are invested (excluding approved deferred compensation plans) and all of these investments are in compliance with the City policy."

Certification signed by the Treasurer and Deputy Treasurer that sufficient liquid resources (including maturities) are available to meet the next six months cash flow.

Listing of all brokers and total business transacted during the month.

XII. INVESTMENT CONTRACT

All investment contracts shall be routed through the City Attorney's office prior to signing by the Treasurer.

XIII. CONTINUING EDUCATION

The Treasurer and Deputy Treasurer shall attend investment training at least once a year.

XIV. WIRE TRANSFERS

All wire transfers exceeding \$250,000 must be authorized by at least two members of the staff.

XV. INTERNAL CONTROLS

A Finance Department staff member who is not involved in the purchase of investments, wire transfers, or maintaining the general ledger shall be designated the responsibility of reviewing and reconciling the monthly reports received from brokers and dealers. This review shall include, but not be limited to, reconciling the listing and amounts of each investment as submitted by the dealer/broker with the records maintained by the Treasurer. Each month, the same staff person will also confirm the interest receivable amounts and schedules prepared by the Treasury staff and compare these items with those submitted by the broker/dealer.

XVI. SAFEKEEPING OF SECURITIES

All securities owned by the City, excluding Certificates of Deposit, shall be held in safekeeping by a third party administrator (custody bank or trust department) acting as agent for the City under the terms of a custody or trustee agreement executed by the bank and the City. All securities will be received and delivered using the standard delivery versus payment (DVP) procedure.