

# City of Roseville

## Investment Policy

### Fiscal Year 2007-2008

#### **I. Introduction**

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities.

The investment policies and practices of the City of Roseville are based on state law and prudent money management. All funds will be invested in accordance with this investment policy and Article 2 of Chapter 4 of the California Government Code. This policy is in compliance with the provisions of the California Government Code, Sections 53600 through 53659, the authority governing investments for municipal governments.

#### **II. Scope**

The investment policy applies to all financial assets of the City of Roseville as accounted for in the Comprehensive Annual Financial Report (CAFR). Policy statements outlined in this document focus on the City of Roseville's pooled funds, but will also apply to all other funds under the City's Treasurers' span of control unless specifically exempted by statute or ordinance.

Proceeds of debt issuance shall be invested in accordance with the investment objectives of this policy. However, such proceeds are generally invested in accordance with permitted investment provisions of their specific bond indentures. If in the opinion of the City Treasurer matching the segregated investment portfolio of the bond reserve fund with the maturity schedule of an individual bond issue is prudent given current economic analysis, the investment policy authorizes beyond the five year maturity limitation as outlined in this document. The intent to invest in securities with longer maturities shall be disclosed in the permitted investment language authorized by the City Council in an indenture of trust.

The policy does not cover funds held by the Public Employees Retirement System or funds of the Deferred Compensation program.

#### **III. Prudence**

Investments shall be made with judgment and care—under circumstances then prevailing—which persons 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.

The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

#### **IV. Objectives**

The primary objectives, in priority order, of the investment activities of the City shall be:

- 1) Safety. Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio.
- 2) Liquidity. The investment portfolio of the City will remain sufficiently liquid to enable the City to meet its cash flow requirements.
- 3) Return on Investment. The investment portfolio of the City shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.

#### **V. Delegation of Authority**

The management responsibility for the investment program is hereby delegated to the Treasurer. No person may engage in an investment transaction except as provided under the limits of this policy unless specifically exempted by statute or ordinance.

#### **VI. Ethics and Conflict of Interest**

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

#### **VII. Permitted Investment Instruments**

1. **Government obligations** for which the full faith and credit of the United States are pledged for the payment of principal and interest. Up to 100 percent of the City's investment portfolio may be invested in government obligations.
2. **Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.** This shall include any mortgage pass through security issued and

guaranteed by a Federal Agency with a maximum final maturity of five years. Purchase of Federal Agency issued mortgage-backed securities authorized by this subdivision may not exceed 20 percent of the City's surplus money; all other investments in Federal Agency securities are unrestricted.

3. **Forward Delivery Agreements** (Agreements) entered into for the purchase of investments listed in 1. and 2., above. Agreements shall be executed with a bank or financial institution rated "A" or higher by a nationally recognized statistical-rating organization (NRSRO). Forward (i.e., future) delivery of permitted investments will be the property of the City and shall not constitute property of the estate of the provider within the applicable bankruptcy or insolvency laws. Agreements may be utilized on bond proceeds for which the amount of the principal of the original issuance was \$40 million or more.
4. **Obligations of the State of California or any local agency within the state**, including bonds payable solely out of revenues from a revenue producing property owned, controlled or operated by the state or any local agency or by a department, board, agency or authority of the state or any local agency, provided that the obligations are rated in one of the two highest categories by a NRSRO. Up to 100 percent of the City's investment portfolio may be invested in California municipal obligations.
5. **Repurchase Agreements** used solely as short-term investments not to exceed 30 days. Up to 100 percent of the City's investment portfolio may be invested in repurchase agreements.

The following collateral restrictions will be observed:

- Only U.S. Treasury securities or Federal Agency securities, as described in VII. 1. and 2 will be acceptable collateral. All securities underlying Repurchase Agreements must be delivered to the City's custodian bank by book entry, physical delivery, or by a third party custodial agreement. The total of all collateral for each Repurchase Agreement must equal or exceed, on the basis of market value, 102 percent of the funds borrowed against those securities. For any Repurchase Agreement with a term of more than one day, the value of the underlying securities must be reviewed on a weekly basis and the value of the underlying securities brought back up to 102 percent no later than the next business day.
- Market value must be calculated each time there is a substitution of collateral.
- The City or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to Repurchase Agreement.

- The City may enter into Repurchase Agreements only with primary dealers of the Federal Reserve Bank of New York.
  - The City will have specific written agreements with each firm with which it enters into Repurchase Agreements.
  - Reverse repurchase agreements will not be allowed.
- 6. Bankers' Acceptances**, otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank.

Purchases of Banker's Acceptances may not exceed 180 days maturity or 40 percent of the City's investment portfolio. No more than 30 percent of the City's investment portfolio may be invested in the Banker's Acceptances of any one commercial bank.

- 7. Commercial paper** of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):
- (1) The entity meets the following criteria: (A) Is organized and operating in the United States as a general corporation. (B) Has total assets in excess of five hundred million dollars (\$500,000,000). (C) Has debt other than commercial paper, if any, that is rated "A" or higher by a nationally recognized statistical-rating organization (NRSRO).
  - (2) The entity meets the following criteria: (A) Is organized within the United States as a special purpose corporation, trust, or limited liability company. (B) Has program wide credit enhancements including, but not limited to, over collateralizations, letters of credit, or surety bond. (C) Has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical-rating organization (NRSRO).

Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10 percent of the outstanding paper of an issuing corporation.

Purchases of commercial paper may not exceed 25 percent of the City's investment portfolio.

- 8. Medium-term corporate notes** issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state and operating within the U.S. Medium-term corporate notes shall be rated in a rating category "AA" or its equivalent or better by a nationally recognized rating service.

Purchase of medium-term corporate notes may not exceed 30 percent of the City's investment portfolio.

- 9. FDIC insured or fully collateralized time certificates of deposit.** Purchases of time certificates of deposit in combination with negotiable certificates of deposit may not exceed 30 percent of the City's investment portfolio.
- 10. Negotiable certificates of deposit or deposit notes** issued by a nationally or state-chartered bank or a state or federal savings and loan association or by a state or federal credit union or by a state-licensed branch of a foreign bank provided that the senior debt obligations of the issuing institution are rated "AA" or better by an NRSRO.

The legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the money are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency or any person with investment decision making authority in the administrative office manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposits.

Purchase of time certificates of deposit in combination with negotiable certificates of deposit may not exceed 30 percent of the City's investment portfolio.

**11. State of California's Local Agency Investment Fund.**

The LAIF portfolio should be reviewed periodically. Investment in LAIF may not exceed the legally authorized limits.

**12. Insured savings accounts.**

- 13. 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 (15 U.S.C. Sec. 80a-1, et seq.). To be eligible for investment pursuant to this subdivision these companies shall either: (1) have attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations or (2) have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience managing money market mutual funds and with assets under management in excess of \$500,000,000.

The purchase price of shares of beneficial interest purchased shall not include any commission that the companies may charge and shall not exceed 20 percent of the City's investment portfolio. Further, no more than 10 percent of the City's investment portfolio may be invested in shares of beneficial interest of any one money market fund.

- 14. Shares in a California common law trust** established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California that invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the

Government Code of the State of California, as it may be amended. Up to 100 percent of the City's investment portfolio may be invested in this investment type.

**15. Interest Rate Swaps** for the sole purpose of reducing interest rate risk and lowering the costs of borrowing. Interest rate swaps will only be used in conjunction with enterprise fund debt or investments, not the general fund. Any swap transaction must conform to the Swap Guidelines, attached as Appendix A.

Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. Credit criteria listed in this section refers to the credit of the issuing organization at the time the security is purchased.

## **VIII. 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 while minimizing interest rate risk and maximizing earnings. Unless matched to a specific cash flow, the maximum maturity will be no more than five years from purchase date to maturity date.

City Council has granted permission to invest the following fund accounts where liquidity is not the primary investment objective, in Federal Treasury or Agency securities with maturities up to ten years. The specified fund accounts include:

- Citizen's Benefit Trust
- North Central Wetlands Endowment
- Aquatics Complex Maintenance
- Woodcreek West Endowment
- All future trust and/or endowment funds established by the City with no anticipated use of principle

## **IX. Prohibited Investments**

For purposes of this policy, a derivative is defined as any security where the value is linked to or derived from an underlying asset or benchmark. Any security type or structure not specifically approved by this policy is hereby specifically prohibited. The City will not use such derivatives as range notes, dual index notes, inverse floating rate notes, deleveraged notes, or notes linked to lagging indices or to long term indices, nor will the City invest in reverse repurchase agreements, 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. This policy does not preclude the use of repurchase agreements and callable securities, as they do not fall within the definition of a derivative as described herein.

## **X. Reporting Requirements**

The Treasurer shall submit monthly investment reports to the City Manager and make these reports available to the City Council in the Finance Department offices. The Treasurer shall submit copies of the second and fourth quarter calendar year investment reports and copies of the City's investment policies to the California Debt and Investment Advisory Commission (CDIAC) no later than 60 days after the close of the second quarter of each calendar year and 60 days after any subsequent amendments. The reports shall include, at a minimum, the following information for each individual investment:

- Description of investment instrument
- Issuer name
- Yield on cost
- Purchase date
- Maturity date
- Purchase price
- Par Value
- Current market value and the source of the valuation

The quarterly report shall also (i) state compliance 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 six months, or provide an explanation as to why sufficient money shall, or may, not be available.

The Treasurer shall annually submit to the Council a statement of investment policy, which the Council shall consider at a public meeting. Any change in the policy shall also be reviewed by the Council at a public meeting.

## **XI. Performance Benchmark**

The City will establish an appropriate performance benchmark and compare the performance of its portfolio to the benchmark at the end of each quarter. The benchmark will be based on the Merrill Lynch 1-3 Year United States Treasury (UST) Index. The benchmark will not be used for monies designated for liquidity purposes.

## **XII. Safekeeping and Custody**

The assets of the City shall be secured through the third-party custody and safekeeping procedures. Bearer instruments shall be held only through third-party institutions. Collateralized securities such as repurchase agreements shall be purchased using the delivery vs. payment procedure.