

# INVESTMENT POLICY

## CITY OF BRISBANE

### Policy

Pursuant to the authority granted by the City Council, the City Treasurer is responsible for investing the unexpended cash in the City Treasury.

The investment of funds of the City of Brisbane is directed toward the goals of safety, liquidity and yield. The State of California authority governing investments for municipal governments is set forth in the California Government Code, Section 53601 through 53659.

The primary objective of the investment policy of the City of Brisbane is **SAFETY OF PRINCIPAL**. Investments shall be placed in securities as outlined in the authorized investments and maturity sections of this document. Effective cash flow management and resulting cash investment practices are recognized as essential to good fiscal management and control. The City monitors cash flow on a daily basis and reports results to the City Council monthly to ensure that liquidity is never threatened. The City's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and local law. Portfolio management requires continual analysis and as a result the balance between the various investments and maturities may change in order to give the City of Brisbane the optimum combination of necessary liquidity and yield based on cash flow projections.

### Scope

The investment policy applies to all financial assets of the City of Brisbane as accounted for in the Comprehensive Annual Financial Report (CAFR). Policy statements outlined in this document focus on the City of Brisbane's pooled funds, but will also apply to all other funds under the City Treasurer's span of control unless specifically exempted by resolution. This policy is applicable, but not limited to all funds listed below:

General Fund	Special Revenue Funds
Capital Project Funds	Enterprise Funds
Trust and Agency Funds	Internal Service Funds
Any new fund created by the City Council unless specifically exempted	

One exception does exist regarding the investment of bond reserve funds. 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 extending beyond the five

year maturity limitation as outlined in this document if the necessary language is contained in the specific bond documents.

### **Prudence**

The standard to be used by investment officials shall be that of a “prudent person” and shall be applied in the context of managing all aspects of the overall portfolio. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, direction 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 City Treasurer and his designees assigned to manage the investment portfolio, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

### **Objectives**

#### ***Safety of Principal***

Safety of principal is the foremost objective of the City of Brisbane. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker-dealer default or erosion of market value. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. The City shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.

**Credit risk**, defined as the risk of 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.

**Market risk**, defined as market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by limiting the average maturity of the City’s investment portfolio to two years, the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis, thereby eliminating the need to sell securities prior to maturity and avoiding the purchase of long term securities for the sole purpose of short term speculation.

#### ***Liquidity***

The City of Brisbane’s investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

It is the City’s full intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars. However, it is realized that market prices of securities will vary depending on economic and interest rate conditions at any point in time. It is further recognized that in a well-diversified investment portfolio, occasional measured gains or losses are inevitable due to economic, bond market or individual security credit analysis. These occasional gains or losses must be considered within the context of the overall investment program objectives and the resultant long term rate of return.

Maturities of investment will be selected based on liquidity requirements to minimize interest rate risk and maximize earnings. Current and expected yield curve analysis will be monitored and the portfolio will be invested accordingly. The weighted average maturity of the pooled portfolio should not exceed two years and the following percentages of the portfolio should be invested in the following maturity sectors:

<u>Maturity Range</u>	<u>Suggested Percentage</u>
1 day to 7 days	15 to 50%
7 days to 180 days	0 to 30%
180 days to 360 days	0 to 30%
1 year to 2 years	0 to 30%
2 years to 3 years	0 to 30%
3 years to 4 years	0 to 30%
4 years to 5 years	0 to 30%
over 5 years	Requires Council Authorization

**Return on Investment**

The City of Brisbane’s investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the City’s investment risk constraints and the cash flow characteristics of the portfolio.

Investment performance is continually monitored and evaluated by the City Treasurer. Investment performance statistics and activity reports are generated on a monthly basis for presentation to the City Manager and City Council.

**Delegation of Authority**

Authority to manage the City of Brisbane’s investment program is derived from statutes of the State of California and City of Brisbane City Council directive. Management responsibility for the investment program is hereby delegated to the City Treasurer who may establish written procedures for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City

Treasurer. The City Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

### **Ethics and Conflicts of Interest**

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. Additionally, the City Treasurer is required annually to file applicable financial disclosure documents as required by the Fair Political Practices Commission.

### **Authorized Financial Dealers and Institutions**

The City Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of California. These may include “primary” dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state law.

The City shall transact business only with banks, savings and loans, and with broker/dealers. The City Treasurer shall annually send a copy of the current investment policy to all broker/dealers approved to do business with the City. Receipt of this policy shall be considered confirmation that the broker/dealer understands the City’s investment policies and intends to offer the City only appropriate investments authorized by this investment policy.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the City Treasurer with the following:

- Audited financial statements
- Proof of National Association of Security Dealers certification
- Proof of State of California registration
- Certification of having read the City’s Investment Policy and Depository contracts.

An annual review of the financial condition and registrations of qualified bidders may be conducted by the City Treasurer.

A current financial statement is required to be on file for each financial institution and broker/dealer in which the City of Brisbane invests.

### **Safekeeping of Securities**

To protect against fraud or embezzlement, or losses caused by collapse of an individual securities dealer, all securities owned by the City shall be held in safekeeping by a third party bank trust department, acting as agent for the city under the terms of a custody

agreement. All trades executed by a dealer will settle delivery vs. payment through the City's safekeeping agent.

Securities held in custody for the City shall be independently audited on an annual basis to verify investment holdings.

All exceptions to this safekeeping policy must be approved by the City Treasurer in written form and included in monthly reporting to the City Council.

### **Internal Control**

Separation of portfolio management and record keeping between the City Treasurer's office and the Finance Department personnel is designed to provide an ongoing internal review to prevent the potential for converting assets or concealing transactions. Timely bank reconciliation is conducted to ensure proper handling of all transactions.

The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by the Finance Department on a monthly basis.

An independent analysis by an external auditor shall be conducted annually to review internal control, account activity and compliance with policies, procedures and applicable laws.

### **Reporting**

The City Treasurer shall prepare monthly reports for the City Manager and the City Council which shall include the face amount of the investment, the classification of the investment, the name of the institution or entity, the rate of interest, the maturity date, the current market value and accrued interest for all securities.

### **Collateral Requirements**

Collateral is required for investments in certificates of deposit. In order to reduce market risk, the collateral level will be at least 102% of market value of principal and accrued interest.

In order to conform with the provisions of the Federal Bankruptcy Code which provides for liquidation of securities held as collateral, the only securities acceptable as collateral shall be certificates of deposit, commercial paper, eligible banker's acceptances, medium term notes or securities that are the direct obligations of, or are fully guaranteed as to principal and interest by, the United States or any agency of the United States.

## **Authorized Investments**

Investment of City funds is governed by the California Government Code Section 53600 et seq. Within the context of the limitations, the following investments are authorized, as further limited herein:

1. United States Treasury Bills, Bonds, and Notes or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio, which can be invested in this category, although a five year maturity limitation is applicable.
2. Obligations issued by the Government National Mortgage Association (GNMA), the Federal Farm Credit System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal National Mortgage Association (FNMA), the Student Loan Marketing Association (SLMA), and the Federal Home Loan Mortgage Association (FHLMC). There is no percentage limitation of the portfolio, which can be invested in this category, although a five year maturity limitation is applicable.

Investments detailed in items 3 through 10 are further restricted to a percentage of the value of the portfolio in any one issuer name to a maximum of 15%. The total value invested in any one issuer shall not exceed 5% of the issuers net worth. Again, a five year maximum maturity limitation is applicable unless further restricted by this policy.

3. Bills of exchange or time drafts drawn on and accepted by commercial banks, otherwise known as banker's acceptances. Banker's acceptances purchased may not exceed 180 days to maturity or 20% of the value of the portfolio.
4. Commercial paper ranked P1 by Moody's Investor Services or A1 by Standard & Poors, and issued by domestic corporations having assets in excess of \$500,000,000. Purchases of eligible commercial paper may not exceed 270 days to maturity nor represent more than 10% of the outstanding paper of the issuing corporation. Purchases of commercial paper may not exceed 15% of the value of the portfolio.
5. Negotiable Certificates of Deposit issued by nationally or state chartered banks or state or federal savings institutions. Purchases of negotiable certificates of deposit may not exceed 25% of the value of the portfolio. A maturity limitation of 5 years is applicable.
6. Local Agency Investment Fund (LAIF), which is a State of California managed investment pool, may be used up to the maximum permitted by California State law.
7. Time deposits, non-negotiable and collateralized in accordance with the California Government Code, may be purchased through banks or savings and loan associations. Since time deposits are not liquid, no more than 25% of the investment portfolio may be invested in this investment type.

8. Medium Term Corporate Notes, with a maximum maturity of five years may be purchased. Securities eligible for investment shall be rated AA or better by Moody's or Standard & Poor's rating services. Purchase of medium term notes may not exceed 15% of the market value of the portfolio and no more than 15% of the market value of the portfolio may be invested in notes issued by one corporation. Commercial paper holdings should also be included when calculating the 15% limitation.
9. Mutual Fund of Investments allowed by this policy with the average duration of the bonds held in the portfolio of no more than 5 years and no load charges.
10. Guaranteed Investment Contracts as specified in bond documents and specifically approved by City Council at the time of a bond sale.

Ineligible investments are those that are not specifically described herein, including but not limited to: common stocks and long term (over five years to maturity) notes and bonds, repurchase agreements, reverse repurchase agreements, and county pools. On occasion, special circumstances arise that necessitate the purchase of securities beyond the five year limitation which require City Council approval prior to purchase.

Various daily cash funds administered for or by trustees, paying agents and custodian banks contracted by the City of Brisbane may be purchased as allowed under State of California Government Code. Only funds holding U.S. Treasury or Government agency obligations can be utilized.

The following summary of maximum percentage limits, by instrument, is established for the City's total pooled funds portfolio:

<u>Investment Type</u>	<u>Percentage</u>
Local Agency Investment Fund	To the limit prescribed by law
US Treasury Bonds/Notes/Bills and US Government Agency Obligations	20 to 100%
Bankers' Acceptances	0 to 15%
Commercial Paper	0 to 15%
Negotiable Certificates of Deposit	0 to 25%
Time Certificates of Deposit	0 to 25%
Medium Term Corporate Notes	0 to 15%
Mutual Fund	0 to 15%

### Derivative Investments

Derivatives are investments whose value is "derived" from a benchmark or index. That benchmark can be almost any financial measure from interest rates to commodity and stock prices. The City of Brisbane's investment policy shall be in compliance with the California State Government Code which, effective January 1996, **prohibits** the purchase

of inverse floaters, range notes, interest only strips or securities that could result in zero interest accrual at any point in the life of the security. Moreover, any future purchases of securities classified as derivative securities are expressly prohibited by this investment policy.

### **Legislative Changes**

Any State of California legislative action, that further restricts allowable maturities, investment type or percentage allocations, will be incorporated into the City of Brisbane's Investment Policy and supersede any and all previous applicable language.

### **Interest Earnings**

All monies earned and collected from investments authorized in this policy shall be allocated monthly based on the cash balance in each fund as a percentage of the entire pooled portfolio.

### **Limiting Market Value Erosion**

The longer the maturity of securities, the greater their market price volatility. Therefore, it is the general policy of the City to limit the potential effects from erosion in market values by adhering to the following guidelines:

All immediate and anticipated liquidity requirements will be addressed prior to purchasing all investments.

Maturity dates for long-term investments will coincide with significant cash flow requirements where possible.

All long-term securities will be purchased with the intent to hold all investments to maturity under then prevailing economic conditions. However, economic or market conditions may change, making it in the City's best interest to sell or trade a security prior to maturity.

### **Portfolio Management Activity**

The investment program shall seek to augment returns consistent with the intent of this policy, identified risk limitations and prudent investment principles. These objectives will be achieved by use of an active portfolio management strategy. Given this strategy, the basis used by the City Treasurer to determine whether market yields are being achieved shall be the rate posted for a six month U. S. Treasury Bill.

## **Policy Review**

The City of Brisbane's investment policy shall be adopted by resolution of the City Council on an annual basis. This investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and yield, and its relevance to current law and financial and economic trends. Any amendments to the policy shall be forwarded to the City Council for approval.