

CITY OF OAKLEY
STATEMENT OF INVESTMENT POLICY

1. Purpose:

This statement provides guidelines for the prudent investment of the temporary idle cash of the City of Oakley (hereafter referred to as City), and outlines the policies for maximizing the efficiency of the City's cash management system. The goal is to enhance the economic status of the City while protecting its pooled cash.

2. Scope:

This investment policy applies to all financial assets of the City. For purposes of this policy, the City of Oakley includes the City, as Successor Agency to the Oakley Redevelopment Agency, and the Oakley Financing Authority, which are component units of the City of Oakley, controlled by the City Council, share the same administrative services of the City, and are "related entities" of the City. These funds are accounted for in the City's Comprehensive Annual Financial Report and include:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Internal Service Funds
- Trust and Agency Funds

The investment of bond proceeds held with trustees is directed by the City, but is governed by the restrictions on permitted investments in the applicable bond indenture or similar agreements.

The City retirement plans are with the California Public Employees Retirement System, and the City has no authority or oversight over the investments in any of the plans. Further, the City administers a deferred compensation plan through the ICMA-Retirement Corporation (ICMA-RC). Assets held in the ICMA plan are held in trust for the participants, and are not assets managed by the City. The City does not have any authority over the investments held in these trusts.

3. Policy:

The City's cash management system should accurately monitor and forecast expenditures and revenues, and allow the City to invest funds to the fullest extent possible. The City attempts to obtain the highest possible yield while meeting the criteria established for safety and liquidity.

It is the policy of the City of Oakley, a general law city, to invest public funds in a manner which will provide maximum security with the highest investment return while meeting the daily cash flow demands of the City. 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 (Govt. Code Section 53600.3) 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.

4. Objectives:

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

4.1. 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 the preservation of capital in the overall portfolio. 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.

4.2. Liquidity: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

4.3. Return on investment: The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio.

5. Delegation of Authority:

Authority to manage the City's investment program is derived from the California Government Code Sections 53600 through 53609. Management responsibility for the investment program is hereby delegated to the Finance Director, who shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include reference to: safekeeping, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking service contracts. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the established procedures. The Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

6. Ethics and Conflicts of Interest:

The investment responsibility carries with it the added duties of insuring that investments placed are done so without the appearance of improper influence.

Finance personnel involved in the investment function shall adhere to the state's Code of Economic Interest and to the following:

6.1. All persons authorized to place or approve investments shall not personally or through a close relative maintain any accounts, interest, or private dealings with any firm through which the City places investments, with the exception of regular savings, checking and money market accounts, or other similar transactions that are offered on a non-negotiable basis to the general public. Such accounts shall be disclosed annually to the City Clerk in conjunction with annual disclosure statements of economic interest.

6.2. All persons authorized to place or approve investments shall report to the City Clerk, kinship relations with principal employees of firms with which the City places investments.

6.3. Return on Investment: The investment portfolio of the City of Oakley shall be designed to attain a market average rate of return during budgetary and economic cycles, taking into account the City's investment risk constraint and the cash flow characteristics of the portfolio. The City should strive to maintain a high investment level of idle funds, less required reserve, through projected cash flow determinations. Cash management of idle funds is the responsibility of the Finance Department.

6.4. Maintaining the Public Trust: All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the City of Oakley's ability to govern effectively.

7. Authorized Financial Dealers and Institutions:

Should the City engage in investments outside of the use of savings, money market funds, and policy compliant investment pools (LAIF and CalTrust), the Director will establish and maintain a list of financial institutions authorized to provide investment services, and a list of approved security broker/dealers selected by credit worthiness, who maintain an office 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 laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions on the Director's list, must supply the Director with the following: Proof of National Security Dealers certification, trading resolution, proof of State of California registration, personal resume, certification of having read the City's investment policy, and depository contracts.

At a minimum, the task of maintaining a list of financial institutions and approved security broker/dealers shall include the Director's annual review of the financial condition and registrations of qualified bidders.

In addition, a current audited financial statement is required to be on file for each financial institution and broker/dealer in which the City invests.

Before engaging in investment transactions with a broker/dealer, the Director shall have received from said firm a signed letter, attesting that the individual responsible for the City's account with that firm has reviewed the City of Oakley's Investment Policy and that the firm understands the policy and intends to present investment recommendations and transactions to the City that are appropriate under the terms and conditions of the Investment Policy.

8. Authorized & Suitable Investments:

The City of Oakley is empowered by California Government Code 53601 et seq. to generally invest in the following types of securities¹:

- United States Treasury notes
- United States Treasury bonds
- United States Treasury bills or
- United States Treasury certificates of indebtedness.

Bonds, notes or other evidence of indebtedness issued or guaranteed by an agency of the United States government. Agencies that are not the direct obligation of the U.S. Treasury but involve Federal sponsorship or guarantees:

- Federal Home Loan Bank
- Federal National Mortgage Association
- Federal Farm Credit Bank
- Federal Home Loan Mortgage Corporation
- Student Loan Marketing Association
- Government National Mortgage Association

Registered state warrants or treasury notes or bonds issued by the State of California.

Certificates of Deposit (CDs) or Time Deposits placed with commercial banks and savings and loans.

Medium Term Corporate Notes issued by corporations operating in the United States, of the highest ranking or of the highest letter and number rating as

¹ Section 53601 provides additional guidance for the authorized investment of the City's money and should be referred to for specific restrictions on these, and any other, permitted investments.

provided for by Moody's Investors Service, Inc. (Moody's), Standard & Poors (S&P), or Fitch Financial Services, Inc. (Fitch).

Banker's Acceptances with a term not to exceed 180 days.

Repurchase Agreements.

Local Agency Investment Fund Demand Deposits (State Pool)

Shares issued by the Investment Trust of California (CalTRUST), a pooled investment program authorized for local agency investment pursuant to California Government Code Section 53601(o).

Passbook Savings Account Demand Deposits

Money market funds which invest solely in securities issued by the U. S. Treasury and agencies of the federal government, and repurchase agreements collateralized with U. S. Treasury and federal agency obligations.

Prohibited Investments: Under the provisions of Government Code Sections 53601.6 and 53631.5, the City shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, interest only strips derived from mortgage pools or any investment that may result in a zero interest accrual if held to maturity.

9. Collateralization:

Collateralization will be required on two types of investments: certificates of deposit over \$99,000 and repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be one hundred two percent (102%) of market value of principal and accrued interest.

Collateral must be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained.

The right of collateral substitution is granted.

10. Safekeeping and Custody:

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Director and evidenced by safekeeping receipts.

11. Diversification:

The City will diversify its investments by security type and institution. With the exception of U. S. Treasury securities and authorized pools, no more than 33% of the

City's total investment portfolio will be invested in a single security, U.S. Government agency, or with a single financial institution.

12. Maximum Maturities:

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow and approved by the City Council, the City will not directly invest in securities maturing more than 5 years from the date of purchase.

13. Reporting:

The Director is charged with the responsibility of including investment activities in the City's Comprehensive Annual Financial Report, as well as a quarterly summary report to the City Council. Reports will include performance, market sector and interest accruals, and shall be on the basis of both cost and market.

The policy recognizes that reporting on a market basis will periodically cause market gains or losses to be reported. In most instances such gains or losses will not be realized since individual securities with specific maturities are purchased based upon projected cash flows and normally will not be liquidated prior to maturity.

14. Investment Policy Review:

The City's investment policy shall be reviewed annually by the City Council.

15. Other Constraints:

The City shall operate its investment pool within the many State and self imposed constraints. It shall buy no stocks, shall not speculate, nor shall it deal in futures or options, or buy on margin. The City will not purchase inverse floaters, range notes, interest only strips or any security having an interest rate derived from an index, commodity price or other variable i.e. securities commonly know as derivatives.