



**CITY OF AUBURN  
REQUEST FOR PROPOSALS  
FOR  
BANKING SERVICES**

**ISSUE DATE: May 26, 2017**

**Re-ISSUE DATE: July 26, 2017**

**REVISED PROPOSAL DUE DATE: Aug. 25, 2017 at 5:00 p.m.**

**CONTRACT AWARD DATE:**

**City of Auburn Administrative Services Department  
1225 Lincoln Way, Room 1, Auburn, CA 95603  
Phone: (530) 823-4211  
Fax: (530)823-4209**

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Attachment 1: City Investment Policy

# **I. INTRODUCTION AND INSTRUCTIONS TO PROPOSERS**

## **A. INTRODUCTION**

The City of Auburn (“City”) is seeking proposals from qualified financial institutions to provide a proposal for banking services. The City was incorporated in May 2, 1888, as a “General Law” City governed by an elected five-member city council. The City has a population of approximately 14,000 and encompasses 7.5 square miles. The City has a Council-Manager form of government with five members on the City Council. The City has approximately 67 full-time employees and 13 part-time employees.

The City provides the following services to its residents: public safety police and fire, maintenance of streets and infrastructure, planning and zoning, building and engineering, and general administration. Enterprise operations include a municipal airport and sewer services.

The City of Auburn includes no component units. The City is the Successor Agency for the former AUDA Community Development; the Successor Agency is included in the financial statements as a Private Purpose Trust Fund.

The City’s 2016-17 expenditure budget for all funds combined is approximately \$27.0 million, including \$11.4 million in the General Fund.

The City currently maintains three accounts and conducts its banking business with the local branch of a major national bank. The City has had a long-term relationship with this bank, however has determined that it is time to solicit proposals from interested financial institutions to ensure that the City receives best available services to meet its needs.

The Proposer is expected to provide all the materials and services that will fulfill or exceed the requirements and conditions as set forth in this RFP.

## **B. OTHER INFORMATION**

There is no expressed or implied obligation for the City to reimburse responding institutions for any expenses incurred in preparing proposals in response to this request. Proposals will be accepted only from parties that are free from all obligations and interests that might conflict with the best interest of the City and are able to provide services on a timely basis in accordance with the timetable listed herein.

Materials submitted by respondents are subject to public inspection under the California Public Records Act (Government Code Sec. 6250 et seq.), unless exempt.

The City reserves the right to retain all proposals submitted and to use any ideas in a proposal regardless of whether that proposal is selected. Submission of a proposal indicates acceptance by the institution of the conditions contained in this request for proposal, unless clearly and specifically noted in the submitted proposal and confirmed in the contract between the City and the institution selected.

The City reserves the right to make such changes in the Request for Proposal as it may deem appropriate. Any changes in the Request for Proposal shall be made by a written addendum, which shall be issued by the City to all prospective institutions who have been issued a copy of the Request for Proposal or who have notified the City that a copy of the Request for Proposal has been obtained.

If the evaluation of any proposal indicates minor non-compliance or variance with the Request for Proposal, the City may, but need not, make written request to the institution for a supplement to the submitted proposal. Such request will attempt to identify the non-compliance or variance, and will establish a date in which the institution may submit a supplement to the Request for Proposal. If so requested, the institution may submit a supplement to the Request for Proposal responsive to such request, within the time period established, which the City would evaluate in conjunction with the Request for Proposal. Any supplement to the Request for Proposal will be deemed an integral part of the institution's submittal.

### C. TIME SCHEDULE

<b>May 26, 2017</b>	Initial distribution of RFP package
<b>July 26, 2017</b>	Re-Issue RFP package and additional information
<del><b>June 5, 2017</b></del>	<del>Deadline for submission of questions</del>
<del><b>June 12, 2017</b></del>	<del>Estimated City response to questions</del>
<del><b>July 11, 2017</b></del>	<del>Proposal closing date and time of 5:00 p.m. PT</del>
<b>August 25, 2017</b>	Proposal closing date and time of 5:00 p.m. PT
<b>Sept. 22, 2017</b>	Conduct finalist interviews
<b>Oct. 16, 2017</b>	Anticipated date for approval/award by City Council

### D. INSTRUCTIONS TO PROPOSERS AND PROCEDURES FOR SUBMITTAL

1. It is the intent of the City to contract for the services presented herein for a term of three (3) years. At the option of the City, this contract may be extended for two (2) additional one-year terms by written amendment. The proposal package shall present all-inclusive fees for each year of the contract term including the two optional years.
2. To be considered, five (5) sealed copies of the proposal must be received no later than 5:00 p.m., August 25, 2017, at the address listed below:

Nita Wracker CPA  
Finance Director  
City of Auburn  
1225 Lincoln Way  
Auburn, CA 90603

All inquiries, technical or otherwise, regarding this proposal process should be directed to Nita Wracker, Finance Director at the address listed above or at [nwracker@auburn.ca.gov](mailto:nwracker@auburn.ca.gov).

Contact with personnel of the City other than the above regarding this request for proposal may be grounds for elimination from the selection process.

3. During the evaluation process, the City reserves the right, where it may serve the City's best interest, to request additional information or clarification from proposers, or to allow corrections of errors and/or omissions. At the discretion of the City, firms submitting proposals may be requested to make oral presentations as part of the evaluation process.
4. It is anticipated that the selection process will be completed by September 22, 2017. Following the notification of the selected firm and City Council approval, it is expected that a contract will be executed between both parties by October 16, 2017.
5. All Proposals shall be submitted on standard 8.5 x 11 inch paper. All pages should be numbered and identified sequentially by section. Proposals must be tabbed and indexed in accordance with the information requested in Section II. ***It is imperative that all Proposers responding to the RFP comply exactly and completely, to the instructions set forth herein.*** All responses to this RFP shall be word processed (except where otherwise provided or noted), concise, straightforward and must fully address each requirement and question. Although not a substitute for complete written response, additional material, such as technical documents may be referenced in any response, if the material is included in the same section as additional information.
6. Information in Proposals shall become public property and subject to disclosure laws. All Proposals shall become the property of the City. The City reserves the right to make use of any information or ideas in the Proposals.
7. By submitting a Proposal, the Proposer represents that it has thoroughly examined and become familiar with the work required under the RFP and that it is capable of providing and performing quality work to achieve the City objectives.
8. The City shall not, in any event, be liable for any pre-contractual expenses incurred by Proposers in the preparation of their Proposal. Pre-contractual expenses are defined as expenses incurred by the Proposer and include:
  - a. preparing its Proposal in response to this RFP;
  - b. submitting that Proposal to the City;
  - c. negotiating with the City any matter related to the Proposer's Proposal; and
  - d. any other expenses incurred by the Proposer prior to the date of award and execution, if any, of the Agreement.
9. Each Proposer must submit its Proposal in strict accordance with all requirements of this RFP and compliance must be stated in the Proposal. Deviations, clarifications, and/or exceptions must be clearly identified and listed separately as alternative items for the City's consideration.

- 10.** After the Closing Date and Time for Receipt of Proposals, evaluation and proposal clarification will commence. No proposals received after the closing date and time will be considered.
- 11.** Proposers judged most responsive to the City's requirements may be asked to give a presentation of their Proposal including on-site demonstration to the City staff. Selected Proposers should be prepared to make their presentation within five calendar days after notification and be prepared to discuss all aspects of their Proposals in detail, including technical questions regarding the Proposal. No Proposer shall be allowed to alter or amend its Proposal through the use of the presentation process.
- 12.** In the event the City deems it necessary to clarify or make any changes to this RFP, these changes shall be made in the form of a written addendum authorized and issued only by the City Purchasing Manager or authorized designee.
- 13.** The City reserves the right to negotiate modifications with any Proposer as necessary to serve the best interest of the City. Any Proposal may be rejected if it is conditional, incomplete or deviates from specifications in this request. The City reserves the right to waive, at its discretion, any procedural irregularity, immaterial defects or other improprieties, which the City deems reasonably correctable or otherwise not warranting rejection of the Proposal. Any waiver will not excuse a proponent from full compliance.
- 14.** Proposers shall describe their approach to the Scope of Work and indicate costs in separate attachments.
- 15.** The City reserves the right to:
  - a.** Negotiate the final Agreement with any Proposer(s) as necessary to serve the best interest the City;
  - b.** Withdraw this RFP at any time without prior notice and, furthermore, makes no representations that any contract will be awarded to any Proposer responding to this RFP; or
  - c.** Award its total requirement to one Proposer or to apportion those requirements among two or more Proposers as the City may deem to be in its best interest.

In addition, negotiations may or may not be conducted with Proposers; therefore, the Proposal submitted should contain the Proposer's most favorable terms and conditions, since the selection and award may be made without discussion with any Proposer.

- 16.** A Contract Agreement will be proposed for execution. It may be modified to incorporate other pertinent Articles/Terms and Conditions set forth in this RFP, including those added by addendum, and to reflect the Proposer's offer or the outcome of contract negotiations, if any, conducted with the Proposer. The Proposer's exceptions to the terms and conditions

of the proposed contract, or the Proposer's inability to comply with any of the provisions of the proposed contract, are to be declared in the Proposal.

## II. PROPOSAL RESPONSE REQUIREMENTS

### A. RESPONSE ITEMS

Proposals should be prepared simply and economically, providing a straightforward, concise description of capabilities to satisfy the requirements of the RFP. Emphasis should be on completeness and clarity of content with sufficient detail to allow for accurate evaluation and comparative analysis. Responses must provide the required information in the following order for each underscored item: Proposers shall respond by repeating the section and sub-sections number(s) and statement/question and by providing the appropriate response hereunder.

#### 1. Cover Letter

All Proposals **must** be accompanied by a cover letter, signed by an individual authorized to bind the proposing entity. **An unsigned Proposal submission is grounds for rejection.**

#### 2. Company Data

Each Proposer shall submit the following information:

- a. state the company's official name and address and the names and titles of its principal officers; indicate what type of entity, such as corporation, partnership, joint venture, sole proprietorship, etc. and indicate if the firm is incorporated;
- b. provide the firm's Federal Employer I. D. Number;
- c. provide the name and address of the person to receive notices who is authorized to make decisions and represents the company. Specify in what capacity the person shall be representing the entity and any limitations to their authority;
- d. furnish the complete firm's address for any mailed funds;
- e. state any failures or refusals to complete any contracts and a complete explanation;
- f. indicate the number of years in business under the present business name;
- g. indicate the number of years of the firm's experience in providing required, equivalent or related products and services;

- h. submit a detailed statement indicating whether the Proposer is totally or partially owned by another business organization or individual that will be providing the services to meet the requirements of the Proposal;
- i. submit a detailed statement indicating whether the Proposer totally or partially owns any other business organization that will be providing the services to meet the requirements of the Proposal; and
- j. submit qualifications of the Proposer to be considered for selection:
  - i. The Proposer must be a qualified public depository, as defined by California General Statutes, and must perform its obligation under this proposal in compliance with all applicable federal and state laws and regulations, as well as statutes and policies. The Proposer must be able to offer the full range of banking services required by the Proposal throughout the duration of the contract with the City.
  - ii. The Proposer must be Federal or State of California chartered.
  - iii. The Proposer must collateralize the City’s deposits pursuant to all applicable sections of the California Government Code. Indicate the current level of public funds deposits and related collateral market value as well as types of securities used as collateral.
  - iv. The Proposer has been evaluated by independent rating services such as the Community Reinvestment Act with a rating of “Outstanding” or “Satisfactory” for the last eight consecutive quarters.

**B. CERTIFICATE OF INSURANCE**

The Proposer shall demonstrate the willingness and ability to provide the required insurance coverage as set forth by City requirements within ten calendar days of notification of selection for award of this Agreement.

**C. VALIDITY OF PROPOSAL**

The Proposer shall state the length of time for which the submitted Proposal shall remain valid. The City requires a period of at least 150 calendar days.

**D. CERTIFICATION OF UNDERSTANDING**

The City assumes no responsibility for any understanding or representation made by any of its officers or agents during or prior to the execution of any Agreement resulting from this RFP unless:

1. Such understanding or representations are expressly stated in the agreement; and
2. The Agreement expressly provides that the responsibility therefore is assumed by the City. Representations made but not so expressly stated and for which liability is not expressly



assumed by the City in the Agreement shall be deemed only for the information of the Proposer.

**E. RESUMES AND QUALIFICAITONS OF PROPOSER’S PERSONNEL**

The Proposer shall provide the resumes of the project manager and key personnel who will be assigned to this project. Resumes shall contain information relating to each person's education, experience or training in the area covered within this proposal.

**F. REFERENCES**

The Proposer shall include at a minimum, a list of five applicable, preferably located in California, municipalities or applicable government operations, which it provides or has provided with these types of services.

**G. RESOURCES TO BE PROVIDED BY THE CITY**

The Proposer must list any resources, City assistance, or other items expected to be provided by the City.

**H. CONVERSION PLAN**

The Proposer shall provide a conversion plan for the operation and use of all of its banking services.

1. Describe the process by which the Proposer would coordinate to ensure a smooth transition from the current provider.
2. Provide a schedule of the conversion process.
3. Discuss the training program that will be used to train the City staff that utilizes any of the services and/or systems provided.
4. Include any hardware, software and any other requirements necessary for the implementation of the banking services proposed.

**I. TRANSACTION RETENTION PERIOD**

Describe the Proposer’s transaction history retention practice. Specify how long transactions are available for retrieval online and offline.

**J. BACKUP AND EMERGENCY SYSTEMS**

Describe the Proposer’s backup and emergency systems which would enable the City to continue operations in the event of a system breakdown or other emergency. Indicate how often these systems are tested and the hours for the technical support hotline.

### III. CONTRACT TERMS

The proposer shall be designated as the City’s depository for three years of a fixed rate contract with an option of two additional one year terms under the same terms and conditions. The City reserves the right to cancel any agreement at any time upon thirty (30) days prior written notice of its intent to terminate any agreement. The designated depository shall provide the City at least ninety (90) days prior written notice of its intent to terminate any agreement.

### IV. SCOPE OF WORK

#### A. NATURE OF SERVICES REQUIRED

The City of Auburn is soliciting proposals from full-service institutions. With the ongoing changes in technology and treasury management practices occurring within the banking industry, the City has determined that a review of services offered is appropriate at this time as a prudent procurement practice. The primary objective of this proposal is to obtain the most efficient, socially responsible and high quality services at the most reasonable cost.

It is the City's intent to maintain the majority of its banking services with one banking institution, and as such, all proposals must include services for all bank accounts. The City reserves the right to add or reduce the number of accounts required to meet its banking objectives.

The City utilizes banking services, full account reconciliation for general account, positive pay, electronic transaction fraud protection, electronic deposit and disbursement, online wire entry and online stop payment.

The City currently utilizes a third party vendor to process online tax payments, however the proposer should be able to accommodate the City should it choose to make online tax payments. Cleared checks are not returned however copies are provided with the monthly statement. Online reporting includes prior day transactions, intraday transactions, daily and monthly bank statements. Compensating balances and a sweep account are utilized.

#### 1. General Operating Accounts

The City currently maintains three (3) accounts which are listed below with a brief explanation of the account.

- a. **General Account:** Used for ACH, or wire transfers; City deposits; investment settlements; general disbursements and auto-payments.
- b. **Payroll Account:** Used to fund City’s bi-monthly payroll primarily for ACH and checks.

- c. **Interest bearing Account:** Used to account for the City's Community Development Block Grant Funds

The intent of the City is to restructure these accounts with the selected firm to include a General account, a zero balance payroll account, a zero balance disbursement account and an interest bearing checking account.

## 2. Merchant Card Processing

The City currently accepts credit and debit card payments for fees other City services. Payments are processed through a third party vendor.

## 3. Trustee Account

A custodial account is established to safe keep and clear securities on a delivery versus payment basis and report investments to ensure the protection of its security interest in portfolio investments.

## 4. Timed Deposits

A certificate of deposit which matures in October 2017

## 5. Investment Accounts

The City currently participates in a Local Agency Investment Fund through the California State Treasurer as well as a Pooled investment account with Placer County.

# B. SCOPE OF SERVICES REQUIRED

## 1. Overview

Detailed services to be provided to the City have been segregated into the following two categories:

- a. **Required Services:** These services are mandatory and must be provided to the City by the selected institution. The only exceptions are acceptable alternative or non-material deviations. The City retains the option in the case of certain services to elect not to use them. This is based on changes in the City's capability to handle these internally.
- b. **Optional Services:** These are services that the City may wish to use depending on the cost, quality and availability of the services offered. If there is a cost for these services, it must be specified in the bid. Optional services do not have to be addressed in order to be considered an acceptable bid, however, selection of a firm may be based on the ability to provide these optional services at a reasonable cost. In addition, any other services that the institution may wish to offer to the City may

be included with the submission package. Again, this does not have to be addressed in order to be considered an acceptable bid, but the final selection may be based on these services.

## **2. Required Services**

### **a. Separate general operating accounts to accommodate the following:**

General Account  
Payroll Account  
Disbursement Account  
Interest Bearing Account

### **b. Deposit Services**

- i.** Guarantee same day credit for wire transfers and ACH deposits on the day received regardless of the time of receipt during the day. Send via email incoming wire/ACH deposits.
- ii.** Redeposit returned items due to “non-sufficient funds”. Items returned a second time should be forwarded to the City on a daily basis. Send via email returned item notification as well.
- iii.** Provide the cutoff time for branch and ATM deposits to ensure same day ledger credit.
- iv.** Describe how the bank handles any deposit discrepancies, including check deposited to the City by mistake and how the City will be notified on deposit adjustments.
- v.** Include a list of all the bank’s deposit locations within the City’s limits (excluding ATM deposits) and branch hours.

### **c. Billing**

Direct fees method, provide the unit charge for each required service, monthly and annual charges based on the City’s estimated monthly volume for each service (Attachment A). Any earnings credit occurring in the account will be used to offset fees. Earnings credit on collected balances in excess of those required to pay charges incurred in any month shall be carried forward to offset future bank charges. Interest earnings rate will be computed in accordance with the negotiated rate agreed upon.

- d.** Daily cash balance reports for the previous day activity through direct access by 6 a.m. each day. The following information needs to be provided for the checking account:
  - i.** Cash balance
  - ii.** Type, number and amount of debits
  - iii.** Type, number and amount of credits
  - iv.** Collected and available balance

- e. Transaction reports for current day activity to be provided for the checking account:
  - i. Type, number and amount of debits
  - ii. Type, number and amount of credits
  
- f. Monthly statements for all accounts within 7 working days. These statements must provide:
  - i. Listing of warrants and amounts cleared sorted by check number
  - ii. Date warrant cleared
  - iii. Date and amount of deposits
  - iv. Summary of beginning cash balance, deposits/credits, warrants/debits, and ending cash balance for each day.
  - v. Copies of all cleared checks.
  
- g. Monthly account analysis report for the active checking accounts, and a summary providing the following information:
  - i. Average daily cash balances
  - ii. Average daily float
  - iii. Average daily collected balances
  - iv. Overdraft charges
  - v. Detailed transaction volume description and prices
  - vi. Basis of earnings allowance
  
- h. Annual/Fiscal Statements for all accounts on or before August 1<sup>st</sup> of each year or as needed, the bank shall provide comparative data by month and by major service cost category to be identified by the City. This information shall be “actual” data and shall include columns for units processed, and collected and ledger balances. The annual statement detailed analysis shall be prepared on a fiscal year basis (July 1 – June 30). This report shall be provided at no additional cost to the City.
  
- i. The bank shall provide online services for the City to initiate wire transfers, ACH transactions, and transfers between accounts, create and store repetitive money transfer templates as well as create future-dated money transfers. Provide the cut-off time for setting up EFTs for same day execution.
  
- j. Web based online services shall include services such as image inquiry, information reporting, business statements, stop payments, positive pay, account balance inquiry, transaction inquiry, deposit history, and other online web applications that can provide added convenience and cost savings.
  
- k. Stop payments that are initiated by direct access to the bank by authorized City employees will be done the same day. The bank shall provide online confirmations of stop payments.

- l.** Backup procedures (via phone and fax), forms and contacts shall be designated in the event of system failure or emergency. The bank shall provide hard copy confirmations.
- m.** Positive pay to include such services as payment of matching checks by check number, vendor name and check amount, exception reports, return instructions, and holdover exceptions. Describe the procedure and timeline for paying or returning exception items and default disposition if a decision response is not received.
- n.** Direct access to the bank by authorized City employees to view images of paid checks .
- o.** Assure that proper City signature authorizations are on all paid items.
- p.** The bank shall guarantee not to return unpaid because of insufficient or uncollected funds any item drawn on the City account. Any fees for overdraft will be charged to the City through account analysis.
- q.** The City utilizes Electronic Federal Tax Payment System (EFTPS) to set up electronic fund transfers from its bank for retirement and health benefit payments. In the future the City reserves the right to set up EFTPS transfers from its bank for Federal and State payroll taxes.
- r.** While the City currently utilizes a third party vendor to process payroll and all related functions; the chosen firm is required to commit to providing direct deposit of City employees' payroll and benefit checks into their own bank accounts (based on an employee accepting this option) with a 24-hour turnaround. Online confirmation of receipt of the payroll file transferred to the bank will be available to the City. The bank must guarantee direct deposit amounts are available in individual personal bank accounts on the City's bi-monthly pay date on the first and sixteenth of each month. All payroll deposits must be available to the employee at the start of business on pay day. Describe the procedure and timeline for paying or returning exception items and default disposition if a decision response is not received.
- s.** The City requires an independent agent to safe keep and clear securities on a delivery versus payment basis and report investments to ensure the protection of its security interest in portfolio investments. The City requires the custodian to be thoroughly familiar with the public sector and the investment of public funds. The custodial fees will be charged to the City through account analysis.
- t.** The bank shall provide support for all products and/or services provided to the City. Training operating manuals and on-going support are to be supplied by the bank for all services provided.

- u. Ability to set up EFTs to make vendor payments such that an accounts payable file can be submitted electronically to the bank to process payments.
- v. Other standard banking documentation and services not specified in this RFP will be provided to the City at a reasonable cost.
- w. Ability to offer the City overnight investment (SWEEP Account) for idle funds accumulated in the City's accounts. These investments must be within the City's investment guidelines set by the City Council (City Investment Policy - "Attachment 1").

### 3. Optional Services

- a. Credit/purchase card platform
- b. Credit/Debit Card Processing

Provide merchant card processing services for the City for online credit card processing for utility billing.

- i. Same-day payment processing for Internet authorizations, settlements and deposit of funds to the City's bank account Monday through Friday. Indicate if this processing is provided in-house or by a third party administrator.
  - ii. Standard reports allowing for user-defined reporting capabilities and research tools, including the ability to track data for individual payment types, locations, and methods. Generate reports on a daily, monthly, quarterly, and annual basis using payment dates, amounts or other search criteria.
  - iii. Consistent and reliable system functionality, payment acceptance, account information access, and "up-time" available to City staff on a 24-hour daily, seven days per week basis.
  - iv. All funds be directly deposited to the City's account and no service charges or fee removed from the revenue. Any service charges or fees should be charged through account analysis.
  - v. The ability to incorporate future payment types, systems, methods or standards at little or no cost, with a short implementation curve, and minimal system upgrades.
  - vi. All web interfaces and on-line transactions shall have a strong encryption method and use the City's Secure Socket Layer (SSL) certificate to verify server registration to prevent unauthorized or "spoofed" transactions via the Internet.
- c. There may be additional services not otherwise specified in the RFP that a proposing firm may wish to offer to the City, whether for free or at a cost

specified by the bidder. Proposals are not required to address any additional services to be considered an acceptable bid. However, the desirability and price of any additional services offered may be a factor in the final selection of the successful bidder.



## **V. PROPOSAL EVALUATION CRITERIA**

Proposals that meet the requirements specified in this RFP will be evaluated based on the following criteria:

- A.** Completeness of response to all required items
- B.** Ability to meet current and projected service requirements over the term of the banking agreement
- C.** Overall cost (although costs are important, pricing is not the sole factor in the evaluation of proposals)
- D.** Reliability and quality of customer service.
- E.** Experience and governmental knowledge of bank team
- F.** Financial Strength
- G.** Capacity to provide numerous electronic banking service
- H.** Thoroughness of the conversion plan
- I.** References

**END OF PROPOSAL**

ATTACHMENT 1  
CITY OF AUBURN  
**INVESTMENT POLICY**

1.0 POLICY

The purpose of this Investment Policy (“Policy”) is to establish overall guidelines for the management and investment of the City of Auburn’s (“City”) public funds.

It is the policy of the City to invest public funds in a manner to meet the City objectives, in order of priority, safety of invested funds, maintenance of sufficient liquidity to meet cash flow needs; and attainment of maximum yield possible consistent with the first two objectives, while conforming to the provisions of California Government Code Sections 53600 et seq.<sup>1</sup>, the City of Auburn Municipal Code, and this Policy.

2.1 SCOPE

This Policy applies to all funds, entities and investment activities under the purview of the City’s Treasurer and Director of Administrative Services as accounted for in the City’s Annual Financial Report, including but not limited to the following unless specifically exempted by statute or ordinance:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Projects Funds
- Enterprise Funds
- Trust and Agency Funds
- Any new fund created by the City Council unless specifically exempted.

- 1) Proceeds of debt issuances shall be invested in accordance with the investment objectives of this Policy and in accordance with the permitted investment provisions of their specific bond indentures.

3.0 PRUDENCE

“City Investment Officials” means the City Treasurer, Director of Administrative Services, and, when required, the City Manager and any other Finance staff that the Director of Administrative Services authorizes in writing. City Investment Officials performing duties in furtherance of the investment program shall act as fiduciaries subject to the Prudent Investor Standard which shall be applied in the context of managing an overall portfolio. The overall investment program shall be designed and managed with a degree of professionalism worthy of the public trust.

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<sup>1</sup> The provisions of California Government Code Sections 53600 et. seq. apply to the City as a General Law City.

Prudent Investor Standard: 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.

City Investment Officials, acting in accordance with this Policy and written procedures governing the City's investment program and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided that deviation from expectations are reported in a timely fashion as required by this Policy and the City's investment program procedures and appropriate action is taken to control adverse developments.

#### 4.0 OBJECTIVES

The primary objectives, in order of priority, of the City's investment program are:

- A. 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, the City will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions. In particular, the City shall seek to preserve principal by mitigating credit risk and market or interest rate risk by doing each of the following:
- Credit risk, defined as the risk of loss due to the failure of the security issuer or backer, will be mitigated by:
    - 1) Limiting investments to the safest types of securities;
    - 2) Prequalifying the financial institutions with which the City will do business;
    - 3) Diversifying the investment portfolio so that the failure of any one issuer or backer will not place an undue financial burden on the City; and
    - 4) Monitoring the investment portfolio on a regular basis to anticipate and respond appropriately to a significant reduction of credit worthiness of any of the depositories.
  - Market or interest rate risk, defined as the risk that the market value of portfolio securities will fall due to an increase in general interest rates, will be mitigated by:
    - 1) Structuring the City's portfolio so that securities mature to meet the City's cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to their maturation to meet those specific needs; and
    - 2) Occasionally restructuring the portfolio to minimize the loss of market value and/or maximize cash flows subject to the constraints described in Section 15.2 of this Policy.

- B. Liquidity: The City's investment portfolio will be structured in a manner which will provide that securities mature at the same time as cash is needed to meet anticipated demands (static liquidity). Additionally, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). The specific percentage mix of different investment instruments and maturities is described in Section 8.0 of this Policy.

It is the full intent of the City to hold all investments until maturity to ensure the return of all invested principal. However, securities may be sold prior to maturity as needed to comply with the intent of this Policy. While it may occasionally be necessary or strategically prudent for the City to sell a security prior to maturity to either meet unanticipated cash needs, to minimize loss of principal of a security with declining credit, or to restructure the portfolio, this Policy specifically prohibits trading securities for the sole purpose of speculating or taking an unhedged position on the future direction of interest rates. Specifically, "When, as, and if issued" trading and open-ended portfolio restructuring transactions are prohibited.

- C. Yield: 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 consideration the investment risk constraints and liquidity needs. Yield on the City's investment portfolio is of secondary importance compared to the safety and liquidity objectives described above. Investments are limited to relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed. Nevertheless, investment performance shall be continually monitored and evaluated by the Director of Administrative Services by comparison with other investment portfolio benchmark yields.

## 5.0 DELEGATION OF AUTHORITY

Authority to manage the City's investment program is derived as follows:

- A. Responsibilities of the Administrative Services Department

The Administrative Services Department is charged with responsibility for maintaining custody of all public funds and securities belonging to or under the control of the City, and for the deposit and investment of those funds in accordance with principles of sound treasury management and in accordance with applicable laws and ordinances.

- B. Responsibilities of the Director of Administrative Services

The Director of Administrative Services is appointed by the City Manager and is subject to his or her direction and supervision. In accordance with the City of Auburn Municipal Code, the Director of Administrative Services is charged with responsibility for the conduct of all Administrative Services Department functions, including the custody and investment of City funds, and the development of procedures to implement this Policy. The Director of Administrative Services is further responsible for the duties and powers imposed by the general laws of the State of California upon City Treasurers, City Assessors and City Tax

Collectors, except to the extent such duties have been delegated or assigned by the City to a County Officer and, with respect to the duties and powers of City Treasurers, only to the extent such duties and powers have been delegated to the Director of Administrative Services by the elected City Treasurer.

Under the oversight of the Director of Administrative Services, responsibility for the certain aspects of the investment program may be delegated to the Administrative Services staff, who shall act in accordance with established written procedures and internal controls consistent with the Policy. The Director of Administrative Services shall be responsible for all transactions undertaken and shall establish a system of controls in accordance with Section 14.0 of this Policy.

C. Responsibilities of the City Treasurer

The City Treasurer is elected every four years by the general electorate of the City of Auburn and acts as a fiduciary agent to the City in accordance with defined duties as prescribed by the State of California Government Code Sections 53630, et. seq. The City Treasurer works closely with the Director of Administrative Services to administer the City's Investment Program as defined by this Policy.

D. Responsibilities of the City Manager

The City Manager is responsible for directing and supervising the Director of Administrative Services. He or she is responsible further to keep the City Council fully advised as to the financial condition of the City. The City Manager shall assume the duties of the Director of Administrative Services whenever there is no person appointed to serve as Director of Administrative Services or as Acting or Interim Director of Administrative Services.

E. Responsibilities of the City Council

The City Council shall consider and adopt a written Investment Policy. As provided in that Policy, the Council shall receive and review quarterly investment reports.

## 5.1 INVESTMENT PROCEDURES

The Director of Administrative Services shall establish written investment policy procedures for the operation of the investment program consistent with this Policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No City Investment Official may engage in an investment transaction on behalf of the City except as provided under the terms of this Policy and the written procedures established by the Director of Administrative Services.

## 6.0 ETHICS AND CONFLICTS OF INTEREST

City Investment Officials involved in the investment process shall refrain from personal business activity that could conflict with proper execution of investments subject to this Policy. City Investment Officials shall avoid all conflicts of interest or appearance of conflicts of interest when performing duties in furtherance of this investment program. The Director of Administrative Services and City Treasurer shall immediately disclose any financial interest which is subject to disclosure under the California Political Reform Act to the City Manager and the City Attorney. All other City Investment Officials shall immediately disclose any financial interest which is subject to disclosure under the California Political Reform Act to the Director of Administrative Services and/or the City Treasurer, who in turn will immediately notify the City Manager and the City Attorney. Additionally, City Investment Officials shall comply with the conflict of interest requirements under state law and the disclosure requirements of the Political Reform Act.

## 7.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

- A. Institutions eligible to transact investment business with the City include (collectively, “Financial Institutions”):
- Primary government dealers as designated by the Federal Reserve Bank of New York (Exhibit A)
  - Broker/dealer licensed by the State of California
  - Member of National Association of Security Dealers
  - National or state chartered banks
  - Direct issuers of securities eligible for purchase by the City
- B. The Director of Administrative Services will maintain a list of financial institutions authorized to provide investment services and a list of approved security broker/dealers after a careful review of their qualifications and creditworthiness. All financial institutions and broker/dealers who desire to do business with the City shall provide the necessary information (e.g. audited financial statements, proof of state registration, proof of National Association of Security Dealers certification, etc.) from which the City can determine their creditworthiness, the existence of any pending legal action against the firm or the individual broker as well as an understanding of the security markets that they service.

The Director of Administrative Services will conduct an annual review of the financial condition and registrations of qualified financial institutions and security broker/dealers. Current audited financial statements will be on file for each financial institution and broker/dealer with which the City invests.

After a review of the financial statement and all other relevant information, the City will determine whether a service agreement should be executed with the institution based on the standards outlined in this Policy. The City requires that an agreement for services be executed prior to entrusting its funds to any dealer or financial institution, and that up-to-date financial statements be sent to the Director of Administrative Services upon their issuance.

- C. The Director of Administrative Services shall annually send a copy of the current edition of the Policy to all Financial Institutions and broker/dealers, which are approved to execute investment transactions with the City. Confirmation of receipt of this policy shall be considered evidence that the Financial Institution and broker/dealer understands the City's Policy and intends to sell the City only appropriate investments authorized by this Policy.

## 8.0 AUTHORIZED INVESTMENTS

All investments shall conform to Sections 53600 et seq. of the California Government Code and as described within the Policy. Permitted investments and applicable limitations shall include:

### 1) United States Treasury Obligations, including Bonds, Notes and Bills:

- There is no maximum portfolio limit.
- Maturity of Treasury Obligations shall not exceed five years from the date of purchase.

### 2) United States Government Agency (and Federally Sponsored Entity) Issues

- The purchase of United States Federal Government Agency securities will be limited to issues of the Federal Farm Credit Banks (FFCBs), the Federal Home Loan Banks (FHLBs), Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA) and the Student Loan Marketing Association (SLMA).
- There is no maximum portfolio limit.
- Purchase in eligible Agency securities shall not exceed five years to maturity.

### 3) Bankers Acceptances (BAs)

- The purchase is limited to BAs issued by domestic U.S. or foreign banks and which must be rated by Fitch Financial Services Inc. ("Fitch") as follows: an issuer rating of "B" or better for domestic U.S., "C" or better for California banks, or "A/B" or better for foreign banks.
- Foreign BAs must be dollar-denominated.
- No more than 30% of the portfolio shall be invested in any single institution.
- No more than 40% of the portfolio shall be invested in BAs.
- The maturity of any BA shall not exceed 180 days.

### 4) Time Deposits

- Deposits up to \$250,000 are federally insured and are limited to banks and savings and loans with offices located in the Auburn area.
  - The maturity of such deposits shall not exceed three years.
- Deposits over \$250,000 are limited to banks and savings and loans in the Auburn area.
  - Deposits shall be collateralized in the manner prescribed in Section 10 of this investment policy.
  - The maturity of non-negotiable and collateralized deposits shall not exceed 18 months.
- No more than 30% of the portfolio shall be invested in time deposits of which no more than 10% shall be invested in one issuer.
- Deposits shall not exceed the net worth of the bank or savings and loan.

### 5) Commercial Paper (CP)

- The California Government Code restricts cities to investing in commercial paper of prime quality of the highest rankings or of the highest letter and number rating as provided for by Moody's Investment Service (Moody's), Standard and Poor's (S&P) or Fitch.
- Issuing corporations must be organized and operating within the United States and have total assets in excess of \$500,000,000 and shall issue debt, other than commercial paper, if any, that is rated "A" or higher by Moody's, S&P or Fitch.
- Purchase of commercial paper may not represent more than 10% of an issuing corporation's commercial paper.
- No more than 10% of the portfolio shall be invested in any single institution.
- No more than 25% of the portfolio shall be invested in commercial paper.
- The maturity of the commercial paper shall not exceed 270 days.

#### 6) Negotiable Certificates of Deposit (NCDs)

- Depositories shall be limited to banks and savings and loans with an issuer rating of "A/B" or better by Fitch.
- No more than the lesser of the net worth of the institution or 10% of the portfolio shall be invested in any single institution.
- No more than \$100,000 of federally insured funds may be invested with any single institution.
- No more than 30% of the portfolio shall be invested in NCDs.
- The maturity of the NCDs shall not exceed 5 years.

#### 7) Repurchase Agreements (Repos)

- Repos are executed only with primary dealers of the Federal Reserve Bank of New York and financial institutions which have entered into the City's Master Repurchase Agreement and any subsequent amendments to the Master Repurchase Agreement.
- Securities accepted as collateral for repurchase agreements are U.S. Treasury or U.S. Federal Government Agency issues permitted by this Policy.
- The market value of securities accepted as collateral as authorized by this Policy shall be at the time of transfer equal to at least 102 percent of the face value of the Repurchase Agreement.
- For other than overnight investments, the securities transferred shall be marked to market on a daily basis and maintained at a market value equal to at least 102 percent of the repurchase agreement's face value.
- No more than 30% of the portfolio shall be invested in Repurchase Agreements.
- The maturity of any Repurchase Agreement shall not exceed 10 days.

#### 8) Corporate Notes

- Securities eligible for investment must be rated "A" or better by two of the three nationally recognized rating services.
- No more than 15% of the portfolio shall be invested in any single institution.
- Medium-term corporate notes may not exceed 30% of the City's portfolio.
- The maturity of any corporate note shall not exceed five years.

#### 9) Local Agency California Investment Fund (LAIF)



- Funds may be invested in LAIF; a State of California managed investment pool, up to the maximum dollar amounts per separate legal entity in conformance with the account balance limits authorized by the State Treasurer.

#### 10) Placer County Treasury Investment Pool

- Funds may be invested in the Placer County Investment Pool.
- No more than 25% of the portfolio shall be invested with the Placer County Treasury Investment Pool.

#### 11) Money Market Mutual Fund

- An investment objective of the fund must be the maintenance of a price per share of \$1.00.
- The fund is registered with the Securities and Exchange Commission (SEC) and is rated AAA by S&P or Aaa by Moody's.
- The fund has retained an investment adviser registered or exempt from registration with the SEC with not less than five years' experience investing in securities and obligations authorized by the California Government Code 53601 and managing money market mutual funds with assets under management in excess of \$500 million.
- The fund invests only in U.S. Treasury and U.S. Federal Government Agency securities, and in repurchase agreements backed by U.S. Treasury and U.S. Federal Government Agency securities permitted under this Policy.
- No more than 5% of the portfolio shall be invested in any one mutual fund.
- No more than 15% of the portfolio shall be invested in money market mutual funds.

#### 12) Reverse Repurchase Agreements (Reverse Repos)

- Except as otherwise authorized by the City Council, the use of reverse repurchase agreements will be limited to those occasions where unanticipated, short-term cash requirements can be met more advantageously by initiating a reverse repurchase agreement than by selling a security into the secondary market prior to its maturity.
- Reverse repurchase agreements are executed only with primary dealers of the Federal Reserve Bank of New York which have signed the City's Master Repurchase Agreement and any subsequent amendments to the Master Repurchase Agreement.
- Under no circumstances shall the City sell securities through reverse repurchase agreements for the purpose of financing the acquisition of other securities.
- The term of any reverse repurchase agreement shall be limited to 30 days.
- The amount of the agreement may not exceed the lesser of \$1 million or 20% of the base value of the portfolio, and only a single agreement shall be in effect at one time.
- Prior written approval by the City Manager or his or her designee is required to enter into a reverse repurchase agreement, and the fact that such a reverse repurchase agreement has been executed will be reported in writing within 72 hours to the City Manager, City Council and will also be included in the Quarterly Investment Report.

#### 13) Municipal Bonds

- Bonds issued by the City or agency of the City
  - Securities eligible for investment must be rated Aa/AA or better by two of the three nationally recognized statistical-rating organizations.

- No more than 5% of the portfolio shall be invested in bonds issued by the City or agency of the City.
  - The maturity shall not exceed five years.
- Bonds issued by the State of California
  - Obligations must be rated Aa/AA or better by two of the three nationally recognized statistical-rating organizations.
  - No more than 5% of the portfolio shall be invested in bonds issued by the State of California.
  - The maturity shall not exceed five years.
- Bonds issued by any other local agency within the State of California
  - Obligations must be rated Aa/AA by two of the three nationally recognized statistical-rating organizations or must be insured by Aa/AA-rated firms that underwrite municipal bond insurance.
  - No more than 5% of the portfolio shall be invested in any one issuer.
  - No more than 15% of the portfolio shall be invested in bonds of other local agencies.
  - The maturity shall not exceed five years.

14) Stocks: Any stock received as a gift, through bankruptcies or as payment in lieu of monies due the City shall be sold immediately upon receipt, unless received through a gift or bequest with restrictions on its sale. Sale proceeds will be distributed to the appropriate program fund. If the stock has no market value or if the cost of selling it exceeds the market value, the stock will be written off and monitored periodically to be sold when a break-even market value can be realized.

#### 15) Ineligible Investments

- Ineligible investments include common stock (with the exception noted above in Section 8.0.14), inverse floaters, range notes, mortgage-derived interest-only strips, or any security that could result in zero interest accrual if held to maturity and any investments not authorized by this Policy unless otherwise approved by the City Council.

### 9.0 INVESTMENT POOLS/MUTUAL FUNDS

A thorough investigation of the LAIF, Placer County Investment Pool, or any money market mutual fund is required prior to investing, and on a continual basis while City's funds are invested in LAIF or the money market mutual fund. Periodically, LAIF and these funds will be required to update their responses to an investment pool questionnaire. Investment staff will monitor LAIF and the money market mutual funds to ensure that the criteria for qualifying these investment pools and funds remain unchanged.

### 10.1 COLLATERALIZATION

Collateralization is required on two types of investments: non-negotiable and collateralized time deposits and repurchase agreements.

- 1) Non-negotiable and collateralized time deposits with banks and savings and loans
  - Shall be collateralized in the manner prescribed by California Government Code 53652 for depositories accepting municipal investment funds.
- 2) Repurchase Agreements
  - The types of securities to be accepted as transferred securities in repurchase agreements in which the City is the buyer shall be limited to U.S. Treasury or U.S. Federal Government Agency issues permitted under this Policy. The City shall maintain a preference for collateral of shorter-term maturities.
  - The market value of the securities used as collateral for the repurchase agreements shall not be allowed to fall below 102% of the value of the repurchase agreement as provided in the Master Repurchase Agreement.
  - Substitutions of transferred securities shall be limited to U.S. Treasury Bills and may not be made without prior approval by the City.

## 11.0 SAFEKEEPING AND CUSTODY

All securities owned by the City shall be held in safekeeping by the City's custodial bank or by a third party bank trust department, acting as agent for the City under the terms of a custody agreement or master repurchase agreement. All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis 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.

## 12.0 DIVERSIFICATION

The City will diversify its investment by security type, issuer and maturity dates. Portfolio percentage and/or dollar limits are indicated in Section 8.0 of this Policy.

## 13.0 MAXIMUM MATURITIES

The City's investment portfolio shall be structured to provide that sufficient funds from investments are available to meet the City's anticipated cash needs. The choice of investment instruments and maturities shall be based upon an analysis of anticipated cash needs, existing and anticipated revenues, interest rate trends and specific market opportunities. The average maturity of the investment portfolio will not exceed two years, and no investment will have a maturity of more than five years from its date of purchase.

Bond reserve funds established by the issuance of bonds may be invested in securities exceeding five years if the maturity of such investments are made to coincide with the expected use of the funds and the appropriate bond indenture permits such investments.

## 14.1 INTERNAL CONTROLS

The Director of Administrative Services is responsible for establishing and maintaining an internal control structure designed to ensure that the City's assets are protected from loss, theft or

misuse. The internal control structure shall be designed to provide reasonable assurance that those objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits to be derived and that the valuation of costs and benefits requires estimates and judgments by management. Internal control procedures shall address:

- Separation of duties
- Control of collusion
- Custodial safekeeping
- Avoidance of physical delivery of securities
- Written confirmation of transfers for investments and wire transfers
- Written procedures for placing investment transactions
- Delegation of authority to investment officials

### 15.1 PERFORMANCE STANDARDS

The investment portfolio shall be designed with the overall objective of safety, liquidity and a return on investment commensurate with the investment risk constraints and the cash flow needs.

### 15.2 Market Yield (Benchmark)

The City's investment portfolio is managed primarily on a "hold-to-maturity" strategy. Given this strategy, the basis used by the Director of Administrative Services to determine whether market yields are being achieved shall be to identify a comparable benchmark to the weighted average maturity of the investment portfolio. Current benchmarks are the six-month and one-year moving average yield of the one-year Treasury security and the yield on LAIF.

### 15.3 RESTRUCTURING TRANSACTIONS

#### 1) General Definitions

The restructuring process involves a change in the composition of the portfolio such that the aggregate portfolio after all transactions are executed meets original goals and constraints of the Policy and performance has been improved. Restructuring opportunities are not a function of time but rather a result of changing market conditions. Conditions that are generally favorable to restructurings are:

- availability of more efficient issues,
- changes in the shape of the yield curve, and
- changes in quality or sector spreads.

A restructured portfolio must continue to generate sufficient cash flow to meet the City's cash requirements without impairing the overall quality/diversification constraints of the portfolio.

#### 2) Specific Requirements

- Restructuring transactions in the City's portfolio shall not exceed \$1 million (par value) per month in original securities exchanged for replacement securities, e.g. two \$500 thousand Treasury issues may be sold and replaced with two \$500 thousand agency issues.
- Prior conceptual approval shall be obtained in writing from the Director of Administrative Services, City Treasurer and City Manager.
- Executed restructuring transactions will be included in the Quarterly Investment Report.
- Net sales gains or losses shall not be incurred to the point of radically altering the current month's earned interest yield (plus or minus 30 basis points).

## 16.1 REPORTING

The Director of Administrative Services and City Treasurer shall submit a quarterly investment report containing detailed information on all securities and investments of the City to the City Council and the City Manager within 30 days following the end of the quarter covered by the report. The quarterly investment report will include the following:

- The classification of the investment, the percentage of the total portfolio which each type of investment represents, issuer, date of maturity, par and dollar amount invested on all securities and investments
- Current market value and the source of the market value
- Cash management projection: Statement denoting the ability of the City to meet its expected obligations over the next six months
- Statement of compliance with the Policy: Reasons for and number of violations or exceptions to the investment policy during the quarter being reported on, as well as prior violations or exceptions which have not yet been corrected
- Weighted average maturity of the investment portfolio
- Trend of average portfolio maturity
- Maturity aging by type of investment
- Trend of the quarterly earned interest yield on investments
- Comparison of budgeted investment earnings to actual earnings for the reporting quarter and fiscal year-to-date
- Separation of realized trading gains or losses from interest received on trading activity (Since the City is not involved in active trading, this will occur only when a security must be sold prior to maturity as defined in Section 4.0.B.)
- Unrealized gain or loss resulting from appreciation or depreciation in the market value of securities
- Aggregate commitments to purchase securities or make other payments to dealers in a manner to permit adequate cash need forecasting
- A brief description of executed reverse repos and the associated interest cost and interest earnings from the transactions
- All investment transactions occurring during the quarter whether or not the transaction has been fully settled

- A description of the current investment strategy and the assumptions upon which it is based
- Distribution reports by bank and broker/dealer
- A brief description of executed restructuring transactions. Number and dollar volume of trades executed for the sole purpose of restructuring the portfolio and analysis of benefit derived from those trades

The City's Quarterly Investment Reports to the City Council will be posted on the City's internet site (absent any unforeseen technological issues).

## 16.2 POLICY EXCEPTIONS

While this Policy prescribes various maximums, minimums and other relatively arbitrary numerical limits, it is intended primarily to be a management tool. When the Director of Administrative Services determines that an exception to one of the Policy's numerical limits is in the best interest of the City, and is otherwise consistent with the Policy, such exception is permitted so long as it is consistent with applicable City, State and Federal laws. Whenever an exception or violation of this Policy is made, that fact shall be reported by the Director of Administrative Services and/or City Treasurer to the City Manager and the City Council within one business day of its discovery. Major exceptions will be reported immediately. All exceptions to the Policy and the appropriate explanation or justification for the exception shall be included in the Quarterly Investment Report. Sudden large fluctuations in portfolio assets can cause technical exceptions to the various percentage limits of the Policy which should not be interpreted as "reportable exceptions". Provided that the portfolio make-up can be readjusted to Policy limits within one working day of a significant increase or decrease in portfolio assets, such temporary percentage exceptions need not be reported as violations or exceptions to this Policy.

## 17.0 INVESTMENT POLICY REVIEW/ADOPTION

The Policy shall be adopted by resolution of the City Council on an annual basis. This Policy shall be reviewed annually to ensure its consistency with respect to the overall objectives of safety, liquidity and yield, and its relevance to current laws and financial trends. An annual Statement of Investment Policy including any proposed amendments to the Policy shall be prepared by the Director of Administrative Services for the review and recommendation of the Investment Committee prior to submission to the City Council for consideration and approval.

## 18.0 GLOSSARY

Definitions of investment-related terms are listed on Exhibit B.

## EXHIBIT A

### LIST OF THE PRIMARY GOVERNMENT SECURITIES DEALERS REPORTING TO THE GOVERNMENT SECURITIES DEALERS STATISTICS UNIT OF THE FEDERAL RESERVE BANK OF NEW YORK

Bank of Nova Scotia, New York Agency  
BMO Capital Markets Corp.  
BNP Paribas Securities Corp.  
Barclays Capital Inc.  
Cantor Fitzgerald & Co.  
Citigroup Global Markets Inc.  
Credit Suisse Securities (USA) LLC  
Daiwa Capital Markets America Inc.  
Deutsche Bank Securities Inc.  
Goldman, Sachs & Co.  
HSBC Securities (USA) Inc.  
Jefferies LLC  
J.P. Morgan Securities LLC  
Merrill Lynch, Pierce, Fenner & Smith Incorporated  
Mizuho Securities USA LLC  
Morgan Stanley & Co. LLC  
Nomura Securities International, Inc.  
RBC Capital Markets, LLC  
RBS Securities Inc.  
Societe Generale, New York Branch  
TD Securities (USA) LLC  
UBS Securities LLC.  
Wells Fargo Securities, LLC

The Federal Reserve Bank of New York's relationships with private sector counterparties described in this policy are business, not regulatory, relationships entered into by the New York Fed for the purposes described herein. That a firm is a New York Fed counterparty is not an endorsement of the firm by the New York Fed and should not be used as a substitute for independent analysis and due diligence by other parties considering a business relationship with the firm.

NOTE: The City's Finance Department will replace this list in the official Investment Policy as changes are made by the Federal Reserve Bank of New York.

## EXHIBIT B

### GLOSSARY

**ACCRETION:** Adjustment of the difference between the price of a bond bought at an original discount and the par value of the bond.

**AGENCIES:** Federal agency securities and/or Government-sponsored enterprises (GSEs), also known as U.S. Government instrumentalities. Securities issued by Government National Mortgage Association (GNMA) are considered true agency securities, backed by the full faith and credit of the U.S. Government. GSEs are financial intermediaries established by the federal government to fund loans to certain groups of borrowers, for example homeowners, farmers and students and are privately owned corporations with a public purpose. The most common GSEs are Federal Farm Credit System Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Association, and Federal National Mortgage Association.

**AMORTIZATION:** Accounting procedure that gradually reduces the cost value of a limited life or intangible asset through periodic charges to income. For fixed assets, the term used is “depreciation”. It is common practice to amortize any premium over par value paid in the purchase of preferred stock or bond investments.

**ANNUAL FINANCIAL REPORT:** The official annual financial report for the City. It includes combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP).

**APPRECIATION:** Increase in the value of an asset such as a stock bond, commodity or real estate.

**ASKED PRICE:** The price a broker/dealer offers to sell securities.

**BANKERS' ACCEPTANCE (BA):** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. This money market instrument is used to finance international trade.

**BASIS POINT:** One-hundredth of one percent (i.e., 0.01%).

**BENCHMARK:** A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investment.

**BID PRICE:** The price a broker/dealer offers to purchase securities.

**BOND:** A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.



**BOOK VALUE:** The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

**BROKER:** A broker acts as an intermediary between a buyer and seller for a commission and does not trade for his/her own risk and account or inventory.

**CALLABLE SECURITIES:** A security that can be redeemed by the issuer before the scheduled maturity date.

**CASH FLOW:** An analysis of all changes that affect the cash account during a specified period.

**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

**COLLATERAL:** Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**COMMERCIAL PAPER:** Short-term, unsecured, negotiable promissory notes of corporations.

**CONDUIT FINANCING:** A financing in which a governmental agency issues debt and the proceeds of the issue are loaned to a nongovernmental borrower who then applies the proceeds for a project financing or (if permitted by federal tax laws for a qualified 501(c)(3) bond) for working capital purposes.

**CORPORATE NOTE:** Debt instrument issued by a private corporation.

**COUPON:** The annual rate at which a bond pays interest.

**CREDIT ANALYSIS:** An analysis of the economic and financial conditions to determine creditworthiness or the ability to meet debt obligations.

**CREDIT RISK:** The risk that an obligation will not be paid and a loss will result due to a failure of the issuer of a security.

**CURRENT YIELD:** The annual interest on an investment divided by the current market value. Since the calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

**CUSTODIAN:** A bank or other financial institution that keeps custody of stock certificates and other assets.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his/her own risk and account or inventory.

**DEBENTURES:** A bond secured only by the general credit of the issuers.

**DEFEASED BOND ISSUES:** Issues that have sufficient money to retire outstanding debt when due, so that the agency is released from the contracts and covenants in the bond documents.

**DELIVERY VERSUS PAYMENT (DVP):** Delivery of securities with a simultaneous exchange of money for the securities.

**DERIVATIVE:** A financial instrument that is based on, or derived from, some underlying asset, reference date, or index.

**DIRECT ISSUER:** Issuer markets its own paper directly to the investor without use of an intermediary.

**DISCOUNT:** The difference between the cost of a security and its value at maturity when quoted at lower than face value.

**DIVERSIFICATION:** Dividing investment funds among a variety of securities offering independent returns and risk profiles.

**DURATION:** A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. Duration measures the price sensitivity of a bond to changes in interest rates.

**FACE VALUE:** The principal amount owed on a debt instrument. It is the amount on which interest is computed and represents the amount that the issuer promises to pay at maturity.

**FAIR VALUE:** The amount at which a security could be exchanged between willing parties, other than in a forced or liquidation sale. If a market price is available, the fair value is equal to the market value.

**FANNIE MAE:** Trade name for the Federal National Mortgage Association (FNMA), a U.S. Government sponsored enterprise.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A federal agency that provides insurance on bank deposits, guaranteeing deposits to a set limit per account, currently \$250,000.

**FEDERAL FARM CREDIT BANK (FFCB):** Government-sponsored enterprise that consolidates the financing activities of the Federal Land Banks, the Federal Intermediate Credit Banks and the Banks for Cooperatives. Its securities do not carry direct U.S. government guarantees.

**FEDERAL FUNDS RATE:** The rate of interest at which Federal funds are traded. This rate is considered to be the most sensitive indicator of the direction of interest rates, as it is currently pegged by the Federal Reserve through open-market operations.

**FEDERAL HOME LOAN BANKS (FHLB):** Government sponsored enterprise (currently made up of 12 regional banks) that regulates and lends funds and provides correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. Although the banks operate under federal charter with government supervision, the securities are not guaranteed by the U. S. Government.

**FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC):** Government sponsored enterprise that helps maintain the availability of mortgage credit for residential housing. FHLMC finances these operations by marketing guaranteed mortgage certificates and mortgage participation certificates. Its discount notes and bonds do not carry direct U.S. government guarantees.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA):** Government sponsored enterprise that is the largest single provider of residential mortgage funds in the United States. FNMA is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA securities do not carry direct U.S. Government guarantees.

**FEDERAL OPEN MARKET COMMITTEE (FOMC):** A committee of the Federal Reserve Board, which establishes monetary policy and executes it through temporary and permanent changes to the supply of bank reserves.

**FEDERAL RESERVE SYSTEM:** The central bank of the U.S. which consists of a seven member Board of Governors, 12 regional banks and about 5,700 commercial banks that are members.

**FED WIRE:** A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.

**FREDDIE MAC:** Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. government sponsored enterprise.

**GINNIE MAE:** Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the U.S. Government.

**GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB):** A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

**GUARANTEED INVESTMENT CONTRACTS (GICS):** An agreement acknowledging receipt of funds, for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid.

**INACTIVE DEPOSITS:** Funds not immediately needed for disbursement.

**INTEREST RATE:** The annual yield earned on an investment, expressed as a percentage.

**INTEREST RATE RISK:** The risk of gain or loss in market values of securities due to changes in interest-rate levels. For example, rising interest rates will cause the market value of portfolio securities to decline.

**INVESTMENT AGREEMENTS:** A contract providing for the lending of issuer funds to a financial institution which agrees to repay the funds with interest under predetermined specifications.

**INVESTMENT PORTFOLIO:** A collection of securities held by a bank, individual, institution or government agency for investment purposes.

**LIQUIDITY:** A liquid asset is one that can be converted easily and rapidly into cash with minimum risk of principal.

**LOCAL AGENCY INVESTMENT FUND (LAIF):** An investment pool sponsored by the State of California and administered/managed by the State Treasurer. Local government units, with consent of the governing body of that agency, may voluntarily deposit surplus funds for the purpose of investment. Interest earned is distributed by the State Controller to the participating governmental agencies on a quarterly basis.

**LOCAL AGENCY INVESTMENT POOL:** A pooled investment vehicle sponsored by a local agency or a group of local agencies for use by other local agencies.

**MARK TO MARKET:** Current value of securities at today's market price.

**MARKET RISK:** The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates. Systematic risk of a security that is common to all securities of the same general class (stocks, bonds, notes, money market instruments) and cannot be eliminated by diversification (which may be used to eliminate non-systematic risk).

**MARKET VALUE:** The price at which a security is currently being sold in the market. See FAIR VALUE.

**MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between the parties to repurchase agreements and reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

**MATURITY:** The date that the principal or stated value of a debt instrument becomes due and payable.

**MEDIUM-TERM NOTES (MTNs):** Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts either on a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

**MODIFIED DURATION:** The percent change in price for a 100 basis point change in yields. This is a measure of a portfolio's or security's exposure to market risk.

**MONEY MARKET:** The market in which short term debt instruments (Treasury Bills, Discount Notes, Commercial Paper, Banker's Acceptances and Negotiable Certificates of Deposit) are issued and traded.

**MUNICIPAL BONDS:** Debt obligations issued by state and local governments and their agencies including school districts, state universities, sewer districts, municipally owned utilities and authorities running bridges, airports and other transportation facilities.

**MUTUAL FUND:** An entity that pools money and can invest in a variety of securities which are specifically defined in the fund's prospectus.

**NEGOTIABLE CERTIFICATE OF DEPOSIT:** A large denomination certificate of deposit which can be sold in the open market prior to maturity.

**NEW ISSUE:** Term used when a security is originally "brought" to market.

**NOTE:** A written promise to pay a specified amount to a certain entity on demand or on a specified date.

**OPEN MARKET OPERATIONS:** Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit: Sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

**PAR VALUE:** The amount of principal which must be paid at maturity. Also referred to as the face amount of a bond. See FACE VALUE.

**PORTFOLIO:** The collection of securities held by an individual or institution.

**PREMIUM:** The difference between the par value of a bond and the cost of the bond, when the cost is above par.

**PRIMARY DEALER:** A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. These dealers are authorized to buy and sell government securities in direct dealing with the Federal Reserve Bank of New York in its execution of market operations to carry out U.S. monetary policy. Such dealers must be qualified in terms of reputation, capacity, and adequacy of staff and facilities.

**PRINCIPAL:** The face value or par value of a debt instrument, or the amount of capital invested in a given security.

**PROSPECTUS:** A legal document that must be provided to any prospective purchaser of a new securities offering registered with the Securities and Exchange Commission that typically includes information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements (also known as an "official statement").

**PRUDENT INVESTOR STANDARD:** A standard of conduct for fiduciaries. 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.

**PUBLIC DEPOSITS:** A bank that is qualified under California law to accept a deposit of public funds.

**PURCHASE DATE:** The date in which a security is purchased for settlement on that or a later date. Also known as the "trade date".

**RATE OF RETURN:** 1) The yield which can be attained on a security based on its purchase price or its current market price. 2) Income earned on an investment, expressed as a percentage of the cost of the investment.

**REALIZED GAIN (OR LOSS):** Gain or loss resulting from the sale or disposal of a security.

**REGIONAL DEALER:** A financial intermediary that buys and sells securities for the benefit of its customers without maintaining substantial inventories of securities and that is not a primary dealer.

**REPURCHASE AGREEMENT (RP or REPO):** A transaction in which a counterparty or the holder of securities (e.g. investment dealer) sells these securities to an investor (e.g. the City) with a simultaneous agreement to repurchase them at a fixed date. The security "buyer" (e.g. the City) in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate the "buyer" for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

**REVERSE REPURCHASE AGREEMENT (REVERSE REPO):** The opposite of a repurchase agreement. A reverse repo is a transaction in which the City sells securities to a counterparty (e.g. investment dealer) and agrees to repurchase the securities from the counterparty at a fixed date. The counterparty in effect lends the seller (e.g. the City) money for the period of the agreement with terms of the agreement structured to compensate the buyer.

**RISK:** Degree of uncertainty of return on an asset.

**SAFEKEEPING:** A service which banks offer to clients for a fee, where physical securities are held in the bank's vault for protection and book-entry securities are on record with the Federal Reserve Bank or Depository Trust Company in the bank's name for the benefit of the client. As agent for the client, the safekeeping bank settles securities transactions, collects coupon payments, and redeems securities at maturity or on call date, if called.

**SALLIE MAE:** Trade name for the Student Loan Market Association (SLMA), a U.S. government sponsored enterprise.

**SECURITIES AND EXCHANGE COMMISSION (SEC):** Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**SEC RULE 15C3-1:** See UNIFORM NET CAPITAL RULE.

**SECONDARY MARKET:** A market for the repurchase and resale of outstanding issues following the initial distribution.

**SECURITIES:** Investment instruments such as notes, bonds, stocks, money market instruments and other instruments of indebtedness or equity.

**SETTLEMENT DATE:** The date on which a trade is cleared by delivery of securities against funds.

**SPREAD:** The difference between two figures or percentages. It may be the difference between the bid (price at which a prospective buyer offers to pay) and asked (price at which an owner offers to sell) prices of a quote, or between the amount paid when bought and the amount received when sold.

**STRUCTURED NOTE:** A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include "inverse floating rate" notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising and "dual index floaters", which pay interest based on the relationship between two other interest rates, for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

**STUDENT LOAN MARKET ASSOCIATION (SLMA):** Government-sponsored enterprise that purchases student loans from originating financial institutions and provides financing to state

student loan agencies. It provides a national secondary market for federally-sponsored student loans and credit to participants in the post secondary education lending sector.

**TIME DEPOSIT:** A deposit with a California bank or savings and loan association for a specific amount and with a specific maturity date and interest rate. Deposits of up to \$100,000 are insured by FDIC. Deposits over \$100,000 are collateralized above the insurance with either government securities (at 110% of par value), first trust deeds (at 150% of par value), or letters of credit (at 105% of par value).

**TOTAL RATE OF RETURN:** A measure of a portfolio's performance over time. It is the internal rate of return which equates the beginning value of the portfolio with the ending value, and includes interest earnings and realized and unrealized gains and losses on the portfolio. For bonds held to maturity, total return is the yield to maturity".

**TRUSTEE OR TRUST COMPANY OR TRUST DEPARTMENT OF A BANK:** A financial institution with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

**UNDERWRITER:** A dealer which purchases a new issue of municipal securities for resale.

**UNIFORM NET CAPITAL RULE:** Securities and Exchange Commission requirement that member firms as well as nonmember broker/dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called *net capital rule* and *net capital ratio*. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

**U.S. GOVERNMENT AGENCY SECURITIES:** Securities issued by U.S. government agencies, most of which are secured only by the credit worthiness of the particular agency. See AGENCIES.

**U.S. TREASURY OBLIGATIONS:** Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are the benchmark for interest rates on all other securities in the U.S. The Treasury issues both discounted securities and fixed coupon notes and bonds. The income from Treasury securities is exempt from state and local, but not federal, taxes.

**TREASURY BILLS:** Securities issued at a discount with initial maturities of one year or less. The Treasury currently issues three-month and six-month Treasury bills at regular weekly auctions. It also issues very short-term "cash management" bills as needed to smooth out cash flows.

**TREASURY NOTES:** Intermediate-term coupon-bearing securities with initial maturities of one year to ten years.



**TREASURY BOND:** Long-term coupon-bearing securities with initial maturities of ten years or longer.

**UNREALIZED GAIN (OR LOSS):** Gain or loss that has not become actual. It becomes a realized gain (or loss) when the security in which there is a gain or loss is actually sold. See REALIZED GAIN (OR LOSS).

**VOLATILITY:** Characteristic of a security, commodity or market to rise or fall sharply in price within a short-term period.

**WEIGHTED AVERAGE MATURITY:** The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

**WHEN ISSUED (WI):** Short form of “when, as, and if issued.” WI refers to a transaction made conditionally because a security, although authorized, has not yet been issued.

**YIELD:** The annual rate of return on an investment expressed as a percentage of the investment. See CURRENT YIELD; YIELD TO MATURITY.

**YIELD CURVE:** Graph showing the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.

**YIELD TO MATURITY:** Concept used to determine the rate of return if an investment is held to maturity. It takes into account purchase price, redemption value, time to maturity, coupon yield, and the time between interest payments. It is the rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.