# CITY OF SAUSALITO

## INVESTMENT POLICY

## I. PURPOSE

This statement of investment policy is intended to provide guidelines for the prudent investment of the City of Sausalito's temporary idle cash and to outline the policies for maximizing the efficiency of the City's cash management system. The ultimate goal is to enhance the economic status of the City while protecting its pooled cash. The management and oversight responsibility for administering the City's investments is delegated to the Finance Director/Treasurer or Administrative Services Director/Treasurer, who shall monitor and review all investments for consistency with this investment policy.

The investment policies and practices of the City of Sausalito are based on state law and prudent money management. All funds will be invested in accordance with the City's Investment Policy and the authority governing investments set forth in the California Government Code, Sections 53601 through 53659. The investment policy for bond proceeds is contained in the relevant bond documents approved by the City Council at the time of the issuance of the debt.

## II. OBJECTIVE

The City's cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the City to invest funds to the fullest extent possible. The City attempts to obtain the highest yield obtainable as long as investments meet the criteria established for safety and liquidity.

## III. POLICY

City funds not required for immediate expenditure will be invested in compliance with State law (Government Code Section 53600 et. Seq.) and this policy. The City will maintain adequate cash availability and maximum yield on invested idle funds while insuring that principal invested is protected.

This investment policy applies to all transactions of the financial assets of all funds of the City of Sausalito.

## IV. REPORTING REQUIREMENTS

Consistent with Sections 16481.2 and 53646 of the Government Code, the Finance Director/Treasurer or Administrative Services Director/Treasurer shall submit an annual Statement of Policies to the City Council for consideration at a public meeting.

In addition to the submittal of an annual Statement of Investment Policies, the Finance Director/Treasurer shall render to the City Council a quarterly and annual Treasurer's Report, which shall include at a minimum the following information:

a. Type of investment instruments
b. Issuer name
c. Purchase date
d. Par value
e. Market value
f. Book value
g. Interest rate
h. Portfolio yield
i. Weighted average days to maturity
j. Maturity date
k. Statement of compliance with the investment policy or other appropriate document (i.e., bond documents)
l. Statement denoting the ability of the City to meet the expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall not – or may not – be available.

The Quarterly Investment Report shall include all investments as of the end of the quarter from all funds held in the City's portfolio, including funds held and invested by trustees, and shall be issued within 30 days after the end of the quarterly reporting period. The annual report shall be issued within 90 days of the end of the fiscal year.

The City shall submit copies of its second and fourth quarter investment reports to the California Debt and Investment Advisory Commission (CDIAC) within 60 days after the close of the second and fourth quarters of each fiscal year.

## V. CRITERIA FOR SELECTING INVESTMENTS AND THE ORDER OF PRIORITY

1. **Safety:** Safety of principal is the foremost objective of the City of Sausalito. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker-dealer default, or erosion of market value. The City shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.

   - **Credit risk**: Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing only with issuers whose financial strength and reputation can be verified to be the highest as rated by nationally known rating agencies and by diversifying the investment portfolio so that the failure of any one issuer would not unduly harm the City's cash flow.

   - **Market Risk**: Market risk, the risk of the market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by:

     (a) structuring the portfolio so that securities mature earlier than or concurrent with the timing of major cash outflows, thus eliminating the need to sell securities prior to their maturity; (b) prohibiting the use of leverage and margin accounts; and prohibiting the taking of short positions that is, selling securities which the City does

not own. It is explicitly recognized herein, however, that in a diversified portfolio, occasional measured loses are inevitable, and must be considered within the context of the overall investment return.

2. **Liquidity:** An adequate percentage of the portfolio will be maintained and liquid short-term securities which can be converted to cash if necessary to meet disbursement requirements. Since all cash requirements cannot be anticipated, investments in securities with active secondary or resale markets is highly recommended. Emphasis will be on marketable securities with low sensitivity to market risk.

3. **Yield:** Yield is the potential dollar earnings an investment can provide, and is sometimes described as the rate of return. Yield will become a consideration only after the basic requirements of safety and liquidity have been met.

## VI. INVESTMENT TYPES AND GUIDELINES

The City is able to purchase and invest in the following instruments as stipulated under Section 53601 of the Government Code as well as guidelines set by the City:

1. US Treasury Bills, Notes and Bonds
   - No limit.
   - Maturity not to exceed 5 years.
2. Obligations Issue by Federal Agencies or a US Government Sponsored Enterprise such as Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA) & Sallie Maes.
   - Limited to 50% of the City's total portfolio.
   - Maturity not to exceed 5 years.
   - Subject to City Council approval before purchase.
3. Banker's Acceptance
   - Limited to 10% of the City's Total portfolio.
   - Limited to 5% in any one issuer.
   - Maturity not to exceed 180 days.
   - Prime quality depending upon the size and Credit worthiness of bank.
   - Subject to City Council approval before purchase.
4. Commercial Paper
   - Limited to 15% of City's total portfolio.
   - Limited to 5% in any one issuer.
   - Maturity not to exceed 180 days.
   - Rating of A1 or P1 either Standard & Poor's Corporation or Moody's Investor Services respectively.

- Credit worthiness of the company based on Financial statements, publications & credit analysis of the major money market dealers. Eligible paper is limited to issuing United States corporations
- Extra care will be taken with this type of investment because of its nature as unsecured debt.
- Subject to City Council approval before purchase.

5. Certificate of Time Deposits

- On uncollateralized deposits, City's portfolio limited to $96,000.
- On collateralized deposits, limited to 10% of City's total portfolio.
- Maturity not to exceed 360 days.
- Investment in local branches whenever possible for deposits over $99,000 collateralization should be 110 to 115% principal issued by a state charted bank of savings and loan association.
- Emphasis on the size and financial statements and related information.
- Subject to City Council approval before purchase.

6. Negotiable Certificates of Deposit

- Limited to 10% of the City's total portfolio.
- Limited to 5% in any one issuer.
- Maturity not to exceed 360 days.
- Issued by a national or state charted bank or federal savings & loan association or state licensed branch of a foreign bank.
- Subject to City Council approval before purchase.

7. Repurchase Agreements

- Limited to 5% of the City's total portfolio.
- Limited to 5% in any one issuer.
- Maturity not to exceed 360 days.
- Collateral may be any securities authorized in items 1 through 7 above.
- A master Repurchase Agreement must be on file with the City.
- Security market to market on a daily basis and delivered to the City's custodial bank at a market value greater than 105%.
- Primarily used as an overnight investment and a vehicle to fill particular dates and amounts.

8. Reverse Repurchase Agreement

- Limited to 5% of the City's portfolio.
- Maturity not to exceed 90 day
- Transaction must match the reinvestment maturity date and the Reverse Repurchase Maturity date.
- Must have a minimum of 35 – 50 basis points spread between the interest income and the interest expense on the Reserve Repurchase Agreement. Security should not be pledged as collateral for temporary borrowing except as authorized by the Finance Director/Treasurer.
- Subject to City Council approval before purchase.

9. Medium Term Notes

- Maximum of five years maturity issued by corporation organized and operating within the United States or by depository license by the United States or any State operating within the United States.
- Subject to City Council approval before purchase

Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or its equivalent or better by a national recognized rating service. Purchase of medium term notes may not exceed 5% of the agency's surplus money which may be invested pursuant to this section.

10. Local Agency Investment Fund

- The Local Agency Investment Fund (L.A.I.F.) was established by the state of California to enable treasurers to place funds in a pool for investments. There currently is a limitation of $40 million per agency subject to a maximum of 10 total transactions per month. The City of Sausalito uses this fund when interest rates are declining as well as for short-term investments and liquidity.
- Limited to 30% of the City's total portfolio.

## VII. INVESTMENT PLACEMENT

Investment placement shall be determined by, not be limited to, continual evaluation projection of market conditions, interest rate trends, cash flow needs, economic data, yield curves, and interest rate forecast. Additionally, the Treasurer will obtain at least two quotations from dealers, brokers, bank and saving the loan associations before finalizing the investment placement. The combination of these factors shall determine where, in what denominations, and for what maturity investments are made.

## VIII. SELLING SECURITIES PRIOR TO MATURITY

Losses are only acceptable if the proposed swap/trade can clearly enhance yield over the life of the new security on all total return basis.

Sufficient written documentation will be maintained to facilitate audit of the transaction. Losses of any, will be recognized and recorded based on the transaction date.

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Louise Ho
Administrative Services Director/Treasurer