

# CITY OF OCEANSIDE INVESTMENT POLICY



City Treasurer's Office  
300 North Coast Highway  
Oceanside, CA 92054

Phyllis Dominguez  
City Treasurer

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Commented [ST1]: Updated Adopted date

**CITY OF OCEANSIDE**

**INVESTMENT POLICY**

**Table of Contents**

I. INTRODUCTION .....3

II. SCOPE .....3

III. PRUDENCE .....3

IV. OBJECTIVES .....4

V. DELEGATION OF AUTHORITY .....4

VI. ETHICS AND CONFLICTS OF INTEREST .....5

VII. INVESTMENT OVERSIGHT COMMITTEE .....5

VIII. INTERNAL CONTROLS .....6

IX. AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKER/DEALERS .....6

X. AUTHORIZED INVESTMENTS .....7

XI. PROHIBITED INVESTMENT VEHICLES AND PRACTICES .....12

XII. INVESTMENT POOLS/MUTUAL FUNDS .....13

XIII. COLLATERALIZATION .....13

XIV. DELIVERY, SAFEKEEPING AND CUSTODY .....14

XV. MAXIMUM MATURITY .....14

XVI. RISK MANAGEMENT AND DIVERSIFICATION .....14

XVII. REVIEW OF INVESTMENT PORTFOLIO .....16

XVIII. PERFORMANCE EVALUATION .....16

XIX. REPORTING .....16

XX. REVIEW OF INVESTMENT POLICY .....17

GLOSSARY OF INVESTMENT TERMS .....18

## **I. INTRODUCTION**

The purpose of this investment policy is to identify various policies and procedures that will foster a prudent and systematic investment program designed to seek the City of Oceanside's objectives of safety, liquidity and return on investment through a diversified investment portfolio. This policy also serves to organize and formalize the City's investment-related activities, while complying with all applicable statutes governing the investment of public funds. This policy is written to incorporate industry best practices and recommendations from sources such as the Government Finance Officers Association (GFOA), California Municipal Treasurers Association (CMTA), California Debt and Investment Advisory Commission (CDIAC) and the Association of Public Treasurers (APT).

## **II. SCOPE**

This policy covers all funds and investment activities under the direct authority of the City, as set forth in the State Government Code, Sections 53600 *et seq.*, with the following exceptions:

- Proceeds of debt issuance shall be invested in accordance with the City's general investment philosophy as set forth in this policy; however, such proceeds are to be invested pursuant to the permitted investment provisions of their specific bond indentures.
- CalPers, OPEB trusts, and the investment of employees' deferred compensation funds invested pursuant to Government Code Section 53609
- Any other funds specifically exempted by the City Council of the City of Oceanside.

### **POOLING OF FUNDS**

Except for cash in certain restricted and special funds, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regards to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

## **III. PRUDENCE**

Pursuant to California Government Code, Section 53600.3, all persons authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to the *Prudent Investor Standard*:

“...all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general

economic conditions and the anticipated needs of the Agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.”

Authorized persons responsible for managing City funds acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes provided that the authorized persons acted in good faith. Deviations from expectations of a security’s credit or market risk should be reported to the governing body in a timely fashion and appropriate action should be taken to control adverse developments.

#### IV. OBJECTIVES

The City’s overall investment program shall be designed and managed with a degree of professionalism worthy of the public trust. The overriding objectives of the program are to preserve principal, provide sufficient liquidity, and manage investment risks, while seeking a [comparative](#) market-rate of return.

- **SAFETY.** Safety of principal is the foremost objective of the investment program. Investments will 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 with independent returns.
- **LIQUIDITY.** The investment portfolio will remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.
- **RETURN ON INVESTMENTS.** The investment portfolio will be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints for safety and liquidity needs.

#### V. DELEGATION OF AUTHORITY

Authority to manage the City’s investment program is derived from California Government Code, Sections 41006 for City Treasurers and 53600 *et seq.*

The City Council is responsible for the management of the City’s funds, including the administration of this investment policy. Management responsibility for the cash management of the City’s funds is hereby delegated to the Financial Services Director for one year in consultation with the City Treasurer and will be renewed annually.

**Commented [AS2]:** 2025 CMTA Reviewer: “Policy says it will attain “a” market rate. Should clarify the rate will be comparative or acceptable.”

While CMTA Model Policy does not address market return in opening paragraph. In ROI it says: “Return on Investments: The investment portfolio shall have the objective of attaining a comparative performance measurement or an acceptable rate of return throughout budgetary and economic cycles”

**Commented [AS3R2]:** Performance Evaluation and Mitigating Market Risk sections indicate the market returns will be against the range around the market benchmark. For consistency, added “comparative” as the adjective.

The Financial Services Director, in consultation with the City Treasurer, will be responsible for all transactions undertaken and will establish a system of procedures and controls to regulate the activities of subordinate officials and employees. Such procedures will include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Financial Services Director in consultation with the City Treasurer.

The City may engage the services of one or more external investment advisers, who are registered under the Investment Advisers Act of 1940, to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. External investment advisers may be granted discretion to purchase and sell investment securities in accordance with this investment policy.

The City's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City recognizes that in a diversified portfolio, occasional measured losses may be inevitable and must be considered within the context of the overall portfolio's return and the cash flow requirements of the City.

## **VI. ETHICS AND CONFLICTS OF INTEREST**

All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. Thus, employees and officials involved in the investment process shall refrain from personal business activity that could create a conflict of interest or the appearance of a conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Employees and investment officials shall disclose to the City Clerk's Office any material interests in financial institutions with which they conduct business, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of the City.

All participants in the investment process are required to comply with terms of the Political Reform Act, Fair Political Practices Commission Regulations promulgated thereunder (2 C.C.R. §§ 18110 through 18998), the City's Conflict of Interest Policy, including, without limitation, filing of Form 700, notification and recusal obligations, and Government Code section 1090 prohibitions.

## **VII. INVESTMENT OVERSIGHT COMMITTEE**

The City Treasurer shall be responsible for establishing a Citizen Investment Oversight Committee consisting of no fewer than five (5) members. The City Treasurer shall make nominations to the Committee subject to the confirmation of a majority of the City Council. Members of the committee shall serve until replaced and meet on a regular basis to review investment operations and assure compliance to California Code requirements. The committee shall act in an advisory role and shall not make investment decisions.

## **VIII. INTERNAL CONTROLS**

The Financial Services Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Periodically, as deemed appropriate by the City and/or the City Council, an independent analysis by an external auditor shall be conducted to review internal controls, account activity and compliance with policies and procedures.

## **IX. AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKER/DEALERS**

To the extent practicable, the Financial Services Director, in consultation with the City Treasurer, shall endeavor to complete investment transactions using a competitive bid process whenever possible. The Financial Services Director, in consultation with the City Treasurer, will determine which financial institutions are authorized to provide investment services to the City. It shall be the City's policy to purchase securities only from authorized institutions and firms.

The Financial Services Director, in consultation with the City Treasurer, shall maintain procedures for establishing a list of authorized broker/dealers and financial institutions which are approved for investment purposes that are selected through a process of due diligence as determined by the City. Due inquiry shall determine whether such authorized broker/dealers, and the individuals covering the City are reputable and trustworthy, knowledgeable and experienced in Public Agency investing and able to meet all of their financial obligations. These institutions may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule).

In accordance with Section 53601.5, institutions eligible to transact investment business with the City include:

- Institutions licensed by the state as a broker-dealer as defined in Section 25004 of the Corporations Code, with proof of FINRA certification.
- Institutions that are members of a federally regulated securities exchange.
- Primary government dealers as designated by the Federal Reserve Bank and non-primary government dealers.
- Nationally or state-chartered banks.
- Savings association or federal association (as defined in Section 5102 of the Financial Code).
- The Federal Reserve Bank.
- Direct issuers of securities eligible for purchase.

Selection of financial institutions and broker/dealers authorized to engage in transactions will be at the sole discretion of the City, except where the City utilizes an external investment adviser in which case the Agency may rely on the adviser for selection.

All financial institutions which desire to become qualified bidders for investment transactions (and which are not dealing only with the investment adviser) must supply the City with audited financials and a statement certifying that the institution has reviewed the California Government Code, Section 53600 *et seq.* and the City's investment policy. The Financial Services Director, in consultation with the City Treasurer, will conduct an annual review of the financial condition and registrations of such qualified bidders.

Public deposits will be made only in qualified public depositories as established by State law. Deposits will be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, will be collateralized in accordance with State law.

Selection of broker/dealers used by an external investment adviser retained by the City will be at the sole discretion of the adviser. Where possible, transactions with broker/dealers shall be selected on a competitive basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, best efforts will be made to document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.

#### **X. AUTHORIZED INVESTMENTS**

The City's investments are governed by California Government Code, Sections 53600 *et seq.* Within the investments permitted by the Code, the City seeks to further restrict eligible investments to the guidelines listed below. In the event a discrepancy is found between this policy and the Code, the more restrictive parameters will take precedence. Percentage holding limits and minimum credit requirements listed in this section apply at the time the security is purchased.

Any investment currently held at the time the policy is adopted which does not meet the new policy guidelines can be held until maturity and shall be exempt from the current policy. At the time of the investment's maturity or liquidation, such funds shall be reinvested only as provided in the current policy.

An appropriate risk level shall be maintained by primarily purchasing securities that are of high quality, liquid, and marketable. The portfolio shall be diversified by security type and issuer to avoid incurring unreasonable and avoidable risks regarding specific security types or individual issuers.

**1. MUNICIPAL SECURITIES** include obligations of the City, the State of California and any local agency within the State of California, provided that:

- The securities are rated in a rating category of "A" or its equivalent or better by at least one nationally recognized statistical rating organization ("NRSRO").
- No more than 5% of the total portfolio may be invested in any single issuer.
- No more than 30% of the total portfolio may be in Municipal Securities.
- The maximum maturity does not exceed five (5) years.

2. **MUNICIPAL SECURITIES (REGISTERED TREASURY NOTES OR BONDS)** of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.
  - The securities are rated in a rating category of “A” or its equivalent or better by at least one nationally recognized statistical rating organization (“NRSRO”).
  - No more than 5% of the total portfolio may be invested in any single issuer.
  - No more than 30% of the total portfolio may be in Municipal Securities.
  - The maximum maturity does not exceed five (5) years.
3. **U.S. TREASURIES** and other government obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest. There are no limits on the dollar amount or percentage that the City may invest in U.S. Treasuries, provided that:
  - The maximum maturity does not exceed five (5) years.
4. **FEDERAL AGENCIES** or United States Government-Sponsored Enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. There are no limits on the dollar amount or percentage that the City may invest in Federal Agency or Government-Sponsored Enterprises (GSEs), provided that:
  - No more than 30% of the total portfolio may be invested in any single Agency/GSE issuer.
  - The maximum maturity does not exceed five (5) years.
  - The maximum percent of callable agency securities in the portfolio will be 20%.
5. **BANKER’S ACCEPTANCES** (Bills of Exchange, or Time Drafts), provided that:
  - They are issued by institutions which have short-term debt obligations rated “A-1” or its equivalent or better by at least one NRSRO; or long-term debt obligations which are rated in a rating category of “A” or its equivalent or better by at least one NRSRO.
  - No more than 40% of the total portfolio may be invested in Banker’s Acceptances.
  - No more than 5% of the total portfolio may be invested in any single issuer.
  - The maximum maturity does not exceed 180 days.
6. **COMMERCIAL PAPER**, provided that the securities are issued by an entity that meets all of the following conditions in either paragraph (a) or (b) and other requirements specified below:
  - a. **SECURITIES** issued by corporations:
    - (i) A corporation organized and operating in the United States with assets more than \$500 million.
    - (ii) The securities are rated “A-1” or its equivalent or better by at least one NRSRO.

(iii) If the issuer has other debt obligations, they must be rated in a rating category of “A” or its equivalent or better by at least one NRSRO.

b. **SECURITIES** issued by other entities:

- (i) The issuer is organized within the United States as a special purpose corporation, trust, or limited liability company.
- (ii) The securities must have program-wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.
- (iii) The securities are rated “A-1” or its equivalent or better by at least one NRSRO.

- No more than 10% of the outstanding commercial paper of any single issue.
- No more than 25% of the Agency’s investment assets under management may be invested in Commercial Paper. Under a provision sunsetting on January 1, [20262031](#), no more than 40% of the total portfolio may be invested in Commercial Paper if the Agency’s investment assets under management are greater than \$100,000,000.
- No more than 5% of the total portfolio may be invested in any single issuer.
- The maximum maturity does not exceed [270-397](#) days.

**Commented [AS4]:** SB 595 extends this provision from 1/1/26 to 1/1/31, effective January 1, 2026.

**Commented [AS5]:** SB 595 extends the maximum maturity date for CP investments from 270 to 397 days, effective January 1, 2026

7. **NEGOTIABLE CERTIFICATES OF DEPOSIT (NCDs)**, issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank, subject to §53601(i) provided that:

- The amount of the NCD insured up to the FDIC and NCUA limits does not require any credit ratings.
- Any amount above the FDIC insured limit must be issued by institutions which have short-term debt obligations rated “A-1” or its equivalent or better by at least one NRSRO; or long-term obligations rated in a rating category of “A” or its equivalent or better by at least one NRSRO.
- No more than 30% of the total portfolio may be invested in NCDs (combined with CDARS).
- No more than 5% of the total portfolio may be invested in any single issuer.
- The maximum maturity does not exceed five (5) years.

8. **FEDERALLY INSURED TIME DEPOSITS** (Non-Negotiable Certificates of Deposit) in state or federally chartered banks, savings and loans, or credit unions, provided that:

- The amount per institution is limited to the maximum covered under federal insurance.
- No more than 20% of the total portfolio will be invested in a combination of federally insured and collateralized time deposits.
- The maximum maturity does not exceed five (5) years.

9. **COLLATERALIZED TIME DEPOSITS** (Non-Negotiable Certificates of Deposit) in state or federally chartered banks, savings and loans, or credit unions in excess of insured

amounts which are fully collateralized with securities in accordance with California law, provided that:

- No more than 20% of the total portfolio will be invested in a combination of federally insured and collateralized time deposits.
- The maximum maturity does not exceed five (5) years.

**10. PLACEMENT SERVICE DEPOSITS**, provided that:

- No more than 30% of the total portfolio may be invested in a combination of qualifying placement service deposits.
- The full amount of each deposit along with accrued interest must at all times be insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA).
- Under a provision sunsetting on January 1, 2031, no more than 50% of the total portfolio may be invested in deposits through a placement service, including Certificates of Deposit, if the Agency is a city, district or local agency that does not pool money with other local agencies.
- The maximum maturity does not exceed five (5) years.

**11. COLLATERALIZED BANK DEPOSITS.** City's deposits with financial institutions will be collateralized with pledged securities per California Government Code, Section 53651. There are no limits on the dollar amount or percentage that the City may invest in collateralized bank deposits.

**12. REPURCHASE AGREEMENTS** collateralized with securities authorized under California Government Code, maintained at a level of at least 102% of the market value of the Repurchase Agreement. There are no limits on the dollar amount or percentage that the City may invest, provided that:

- Securities used as collateral for Repurchase Agreements will be delivered to an acceptable third party custodian.
- Repurchase Agreements are subject to a Master Repurchase Agreement between the City and the provider of the repurchase agreement. The Master Repurchase Agreement will be substantially in the form developed by the Securities Industry and Financial Markets Association (SIFMA).
- In order to conform to provisions of the Federal Bankruptcy Code which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be certificates of deposit, eligible banker's acceptances, or securities that are either direct obligations of, or that are fully guaranteed as to principal and interest by, the United States or any agency of the United States.
- The maximum maturity does not exceed one (1) year.

**13. STATE OF CALIFORNIA LOCAL AGENCY INVESTMENT FUND (LAIF)**, provided that:

- The City may invest up to the maximum amount permitted by LAIF.
- LAIF's investments in instruments prohibited by or not specified in the City's policy do not exclude the investment in LAIF itself from the City's list of allowable investments, provided LAIF's reports allow the City to adequately judge the risk inherent in LAIF's portfolio.

**14. LOCAL GOVERNMENT INVESTMENT POOLS (LGIP)**

- Other LGIPs permitted by client.
- There is no issuer limitation for Local Government Investment Pools
- San Diego County Investment Pool: The City may invest in the San Diego County Investment Pool (SDCIP), managed by the San Diego County Treasurer's investment staff on behalf of public agencies within the County. The City Treasurer, in consultation with the Financial Services Director, shall investigate at least annually the status of the SDCIP with regards to ongoing investment in the pool.
- No more than 15% of the total portfolio may be invested in LGIPs.

**15. CORPORATE MEDIUM TERM NOTES (MTNs), provided that:**

- The issuer is a corporation organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.
- The securities are rated in a rating category of "A" or its equivalent or better by at least one NRSRO.
- Not more than 30% of the total portfolio may be invested in MTNs.
- No more than 5% of the total portfolio may be invested in any single issuer.
- The maximum maturity does not exceed five (5) years.

**16. ASSET-BACKED, MORTGAGE-BACKED, MORTGAGE PASS-THROUGH SECURITIES, AND COLLATERALIZED MORTGAGE OBLIGATIONS FROM ISSUERS NOT DEFINED IN SECTIONS 3 AND 4 OF THE AUTHORIZED INVESTMENTS SECTION OF THIS POLICY, provided that:**

- The securities are rated in a rating category of "AA" or its equivalent or better by a NRSRO.
- No more than 20% of the total portfolio may be invested in these securities.
- No more than 5% of the total portfolio may be invested in any single Asset-Backed or Commercial Mortgage security issuer.
- The maximum legal final maturity does not exceed five (5) years.

**17. MUTUAL FUNDS AND MONEY MARKET MUTUAL FUNDS that are registered with the Securities and Exchange Commission under the Investment Company Act of 1940, provided that:**

- a. **MUTUAL FUNDS** that invest in the securities and obligations as authorized under California Government Code, Section 53601 (a) to (k) and (m) to (q) inclusive and that meet either of the following criteria:
  - (i) Attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
  - (ii) Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by

California Government Code, Section 53601 and with assets under management in excess of \$500 million.

- No more than 10% of the total portfolio may be invested in shares of any one mutual fund.
- b. **MONEY MARKET MUTUAL FUNDS** registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and issued by diversified management companies and meet either of the following criteria:
- (i) Have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or
  - (ii) Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of \$500 million.
- No more than 20% of the total portfolio may be invested in the shares of any one Money Market Mutual Fund.
- c. No more than 20% of the total portfolio may be invested in these securities.

**18. SUPRANATIONALS**, provided that:

- Issues are US dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase or sale within the United States.
- The securities are rated in a rating category of "AA" or its equivalent or better by a NRSRO.
- No more than 30% of the total portfolio may be invested in these securities.
- No more than 10% of the total portfolio may be invested in any single issuer.
- The maximum maturity does not exceed five (5) years.

**XI. PROHIBITED INVESTMENT VEHICLES AND PRACTICES**

- State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to futures and options.
- In accordance with Government Code, Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.
- Investment in any security that could result in a zero interest accrual if held to maturity is prohibited. Under a provision sunsetting on January 1, ~~2026~~2031, securities backed by the U.S. Government that could result in a zero- or negative-interest accrual if held to maturity are permitted.
- Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.
- Purchasing or selling securities on margin is prohibited.

**Commented [AS6]:** SB 595 extends this provision from 1/1/26 to 1/1/31, effective January 1, 2026.

- The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited.
- The purchase of foreign currency denominated securities is prohibited.
- Agencies that are not Qualified Institutional Buyers (QIB) as defined by the Securities and Exchange Commission are prohibited from purchasing Private Placement Securities. The SEC defines a QIB as having at least \$100,000,000 in securities owned and invested.
- The purchase of a security with a forward settlement date exceeding 45 days from the time of the investment is prohibited.
- Investments that exceed five years in maturity are prohibited.

## **XII. INVESTMENT POOLS/MUTUAL FUNDS**

The City shall conduct a thorough investigation of any pool or mutual fund prior to making an investment, and on a continual basis thereafter. The Financial Services Director, in consultation with the City Treasurer, shall develop a questionnaire which will answer the following general questions:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves, retained earnings, etc. utilized by the pool/fund?
- A fee schedule, and when and how is it assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

## **XIII. COLLATERALIZATION**

**CERTIFICATES OF DEPOSIT (CDs).** The City shall require any commercial bank or savings and loan association to deposit eligible securities with an agency of a depository approved by the State Banking Department to secure any uninsured portion of a Non-Negotiable Certificate of Deposit. The value of eligible securities as defined pursuant to California Government Code, Section 53651, pledged against a Certificate of Deposit shall be equal to 150% of the face value of the CD if the securities are classified as mortgages and 110% of the face value of the CD for all other classes of security.

**COLLATERALIZATION OF BANK DEPOSITS.** This is the process by which a bank or financial institution pledges securities, or other deposits for the purpose of securing repayment of deposited funds. The City shall require any bank or financial institution to comply with the collateralization criteria defined in California Government Code, Section 53651.

**REPURCHASE AGREEMENTS.** The City requires that Repurchase Agreements be collateralized only by securities authorized in accordance with California Government Code:

- The securities which collateralize the repurchase agreement shall be priced at Market Value, including any Accrued Interest plus a margin. The Market Value of the securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities.
- Securities used as collateral for Repurchase Agreements will be delivered to an acceptable third-party custodian.
- Financial institutions shall mark the value of the collateral to market at least monthly and increase or decrease the collateral to satisfy the ratio requirement described above.
- The City shall receive monthly statements of collateral.

**Commented [AS7]:** BEST PRACTICE: CMTA Reviewers in 2025 would like to see the collateralization to third-party custodian repeated in the collateralization section.

#### **XIV. DELIVERY, SAFEKEEPING AND CUSTODY**

**DELIVERY-VERSUS-PAYMENT (DVP).** All investment transactions shall be conducted on a delivery-versus-payment basis.

**SAFEKEEPING AND CUSTODY.** To protect against potential losses due to failure of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all cash and securities in the City's portfolio shall be held in safekeeping in the City's name by a third party custodian, acting as agent for the City under the terms of a custody agreement executed by the bank and the City. All investment transactions will require a safekeeping receipt or acknowledgment generated from the trade. A monthly report will be received by the City from the custodian listing all securities held in safekeeping with current market data and other information.

The only exceptions to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; (ii) time certificates of deposit, and, (iii) mutual funds and money market mutual funds, since these securities are not deliverable.

#### **XV. MAXIMUM MATURITY**

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities.

The City will not invest in securities maturing more than five (5) years from the date of trade settlement, unless the City Council has by resolution granted authority to make such an investment either specifically or as a part of an investment program it has approved no less than three months prior to the investment or is otherwise stated in this policy.

#### **XVI. RISK MANAGEMENT AND DIVERSIFICATION**

##### **MITIGATING CREDIT RISK IN THE PORTFOLIO**

Credit risk is the risk that a security or a portfolio will lose some or all its value due to a real or perceived change in the ability of the issuer to repay its debt. The City will mitigate credit risk by adopting the following strategies:

- The diversification requirements included in the “Authorized Investments” section of this policy are designed to mitigate credit risk in the portfolio.
- No more than 5% of the total portfolio may be deposited with or invested in securities issued by any single issuer unless otherwise specified in this policy.
- The City may elect to sell a security prior to its maturity and record a capital gain or loss in order to manage the quality, liquidity or yield of the portfolio in response to market conditions or the City’s risk preferences.
- Investment manager shall monitor the ratings of all investments in their portfolios on a continuous basis and report all credit downgrades of portfolio securities to the Financial Services Director in writing within 24 hours of the event. If an existing investment's rating drops below the minimum allowed for new investments made pursuant to this investment policy, the investment manager shall also make a written recommendation to the Financial Services Director as to whether this security should be held or sold.
- If a security owned by the City is downgraded to a level below the requirements of this policy, making the security ineligible for additional purchases, the following steps will be taken:
  - Any actions taken related to the downgrade by the investment manager will be communicated to the Financial Services Director, in consultation with the City Treasurer, in a timely manner.
  - If a decision is made to retain the security, the credit situation will be monitored and reported to the City Council.

#### **MITIGATING MARKET RISK IN THE PORTFOLIO**

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The City recognizes that, over time, longer-term portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The City will mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes.

The City further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The City, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- The City will maintain a minimum of six months of budgeted operating expenditures in short term investments to provide sufficient liquidity for expected disbursements.

- The maximum stated final maturity of individual securities in the portfolio will be five (5) years, except as otherwise stated in this policy.
- The duration of the portfolio will generally be approximately equal to the duration (typically, plus or minus 20%) of a Market Benchmark, an index selected by the City based on the City's investment objectives, constraints and risk tolerances.

#### **XVII. REVIEW OF INVESTMENT PORTFOLIO**

The City Treasurer shall periodically, but no less than quarterly, review the portfolio to identify investments that do not comply with this investment policy and establish protocols for reporting major and critical incidences of noncompliance to the City Council.

#### **XVIII. PERFORMANCE EVALUATION**

The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City's risk constraints, the cash flow characteristics of the portfolio, and state and local laws, ordinances or resolutions that restrict investments.

The City Treasurer shall monitor and evaluate the portfolio's performance relative to the chosen market benchmark(s), which will be included in the City Treasurer's quarterly report. The Financial Services Director in consultation with the City Treasurer shall select an appropriate, readily available index to use as a market benchmark. Benchmarks may change over time based on changes in market conditions or cash flow requirements.

#### **XIX. REPORTING**

##### **MONTHLY REPORTS**

Monthly transaction reports will be submitted by the City Treasurer to the City Council in accordance with California Government Code Section 53607.

##### **QUARTERLY REPORTS**

The City Treasurer will submit a quarterly investment report to the City Council which provides full disclosure of the City's investment activities within 45 days after the end of the quarter. These reports will disclose, at a minimum, the following information about the City's portfolio:

1. An asset listing showing par value, cost and independent third-party fair market value of each security as of the date of the report, the source of the valuation, type of investment, issuer, maturity date and interest rate.
2. Transactions for the period.

3. A description of the funds, investments and programs (including lending programs) managed by contracted parties (i.e. LAIF; investment pools, outside money managers and securities lending agents)
4. A one-page summary report that shows:
  - a. Average maturity of the portfolio and modified duration of the portfolio;
  - b. Maturity distribution of the portfolio;
  - c. Percentage of the portfolio represented by each investment category;
  - d. Average portfolio credit quality; and,
  - e. Time-weighted total rate of return for the portfolio for the prior one month, three months, twelve months and since inception compared to the City's market benchmark returns for the same periods;
5. A statement of compliance with investment policy, including a schedule of any transactions or holdings which do not comply with this policy or with the California Government Code, including a justification for their presence in the portfolio and a timetable for resolution.
6. A statement that the City has adequate funds to meet its cash flow requirements for the next six months.

**ANNUAL REPORTS**

A comprehensive annual report will be presented to the City Council. This report will include comparisons of the City's return to the market benchmark return, suggest policies and improvements that might enhance the investment program, and will include an investment plan for the coming year.

**XX. REVIEW OF INVESTMENT POLICY**

The investment policy will be reviewed and adopted at least annually within 120 days of the end of the fiscal year, to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends.

Any recommended modifications or amendments shall be presented by Staff to the City Council for their consideration and adoption.

## GLOSSARY OF INVESTMENT TERMS

**AGENCIES.** Shorthand market terminology for any obligation issued by a *government-sponsored entity (GSE)*, or a *federally related institution*. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government. Examples are:

**FFCB.** The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.

**FHLB.** The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.

**FHLMC.** Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called “FreddieMac” issues discount notes, bonds and mortgage pass-through securities.

**FNMA.** Like FHLB and FreddieMac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as “FannieMae,” issues discount notes, bonds and mortgage pass-through securities.

**GNMA.** The Government National Mortgage Association, known as “GinnieMae,” issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.

**PEFCO.** The Private Export Funding Corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the US government.

**TVA.** The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio, and Mississippi River valleys. TVA currently issues discount notes and bonds.

**ASSET BACKED SECURITIES.** Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

**AVERAGE LIFE.** In mortgage-related investments, including CMOs, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

**BANKER’S ACCEPTANCE.** A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which “accepts” the obligation to pay the investor.

**BENCHMARK.** A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

**BROKER.** A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from their own position.

**CALLABLE.** A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline, the issuer will likely call its current securities and reissue them at a lower rate of interest.

**CERTIFICATE OF DEPOSIT (CD).** A time deposit with a specific maturity evidenced by a certificate.

~~**CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM (CDARS).** A private placement service that allows local agencies to purchase more than \$250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. Intrafi is currently the only entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than \$250,000 each, so that FDIC coverage is maintained.~~

**COLLATERAL.** Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

**COLLATERALIZED BANK DEPOSIT.** A bank deposit that is collateralized at least 100% (principal plus interest to maturity). The deposit is collateralized using assets set aside by the issuer such as Treasury securities or other qualified collateral to secure the deposit in excess of the limit covered by the Federal Deposit Insurance Corporation.

**Commented [AS8]:** California now permits multiple placement services beyond CDARS (which has been renamed Intrafi). Section has been updated to reflect broader opportunity set.

**COLLATERALIZED MORTGAGE OBLIGATIONS (CMO).** Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

**COLLATERALIZED TIME DEPOSIT.** Time deposits that are collateralized at least 100% (principal plus interest to maturity). These instruments are collateralized using assets set aside by the issuer such as Treasury securities or other qualified collateral to secure the deposit in excess of the limit covered by the Federal Deposit Insurance Corporation.

**COMMERCIAL PAPER.** The short-term unsecured debt of corporations.

**COUPON.** The rate of return at which interest is paid on a bond.

**CREDIT RISK.** The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

**DEALER.** A dealer acts as a principal in security transactions, selling securities from and buying securities for their own position.

**DELIVERY VS. PAYMENT (DVP).** A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

**DISCOUNT.** The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker's acceptances, are known as discount securities. They sell at a discount from par and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

**DIVERSIFICATION.** Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

**DURATION.** The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a security to changes interest rates.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC).** The Federal Deposit Insurance Corporation (FDIC) is an independent federal agency insuring deposits in U.S. banks and thrifts in the event of bank failures. The FDIC was created in 1933 to maintain public confidence and encourage stability in the financial system through the promotion of sound banking practices.

**FEDERALLY INSURED TIME DEPOSIT.** A time deposit is an interest-bearing bank deposit account that has a specified date of maturity, such as a certificate of deposit (CD). These deposits are limited to funds insured in accordance with FDIC insurance deposit limits.

**FIDUCIARY.** A person or organization that acts on behalf of another person(s) or organization that puts their clients' interest ahead of their own as they are bound both legally and ethically to act in the other's best interests.

**LEVERAGE.** Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

**LIQUIDITY.** The speed and ease with which an asset can be converted to cash.

**LOCAL AGENCY INVESTMENT FUND (LAIF).** A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

**LOCAL GOVERNMENT INVESTMENT POOL.** Investment pools that range from the State Treasurer's Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

**MAKE WHOLE CALL.** A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

**MARGIN.** The difference between the market value of a security and the loan a broker makes using that security as collateral.

**MARKET RISK.** The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

**MARKET VALUE.** The price at which a security can be traded.

**MATURITY.** The final date upon which the principal of a security becomes due and payable. The investment's term or remaining maturity is measured from the settlement date to final maturity.

**MEDIUM TERM NOTES.** Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts on either 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. Modified duration is the best single measure of a portfolio's or security's exposure to market risk.

**MONEY MARKET.** The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.

**MONEY MARKET MUTUAL FUND.** A mutual fund that invests exclusively in short-term securities. Examples of investments in money market funds are certificates of deposit and U.S. Treasury securities. Money market funds attempt to keep their net asset values at \$1 per share.

**MORTGAGE PASS-THROUGH SECURITIES.** A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

**MUNICIPAL SECURITIES.** Securities issued by state and local agencies to finance capital and operating expenses.

**MUTUAL FUND.** An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

**NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO).**  
A credit rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's.

**NEGOTIABLE CERTIFICATE OF DEPOSIT (CD).** A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market.

**PAYDOWN.** A reduction in the principal amount owed on a bond, loan, or other debt.

**PLACEMENT SERVICE DEPOSITS.** A private service that allows local agencies to invest in FDIC-insured deposits with one or more banks, savings and loans, and credit unions located in the United States. IntraFi (formerly known as CDARS) is an example of an entity that provides this service.

**PRIMARY DEALER.** A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to carry out U.S. monetary policy, and (2) that participates for statistical reporting purposes in compiling data on activity in the U.S. Government securities market.

**PRUDENT PERSON (PRUDENT INVESTOR) RULE.** A standard of responsibility which applies to fiduciaries. In California, the rule is stated as "Investments shall be managed with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and with like aims to accomplish similar purposes."

**REPURCHASE AGREEMENT.** Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a reverse repurchase agreement.

**SAFEKEEPING.** A service to bank customers whereby securities are held by the bank in the customer's name.

**SECURITIES AND EXCHANGE COMMISSION (SEC).** The U.S. Securities and Exchange Commission (SEC) is an independent federal government agency responsible for protecting investors, maintaining fair and orderly functioning of securities markets and facilitating capital formation. It was created by Congress in 1934 as the first federal regulator of securities markets. The SEC promotes full public disclosure, protects investors against fraudulent and manipulative practices in the market, and monitors corporate takeover actions in the United States.

**SECURITIES AND EXCHANGE COMMISSION SEC) RULE 15c3-1.** An SEC rule setting capital requirements for brokers and dealers. Under Rule 15c3-1, a broker or dealer must have sufficient liquidity in order to cover the most pressing obligations. This is defined as having a certain amount of liquidity as a percentage of the broker/dealer's total obligations. If the percentage falls below a certain point, the broker or dealer may not be allowed to take on new clients and may have restrictions placed on dealings with current client.

**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.

**SUPRANATIONAL.** A Supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in the member countries.

**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; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.

**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 considered to have no credit risk and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

**TREASURY BILLS.** All securities issued with initial maturities of one year or less are issued as discounted instruments and are called Treasury bills. The Treasury currently issues three- and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth out cash flows.

**TREASURY NOTES.** All securities issued with initial maturities of two to ten years are called Treasury notes and pay interest semi-annually.

**TREASURY BONDS.** All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

**YIELD TO MATURITY.** The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.