

CITY OF STOCKTON INVESTMENT POLICY Fiscal Year 2009-10

1) Objectives

It is the policy of the City of Stockton (City) to invest funds in a manner which will provide foremost for the safety of principal while meeting the short and long term cash flow demands of the City and conforming to all statutes governing the investment of City funds.

Within the overriding requirement of compliance with all Federal, State and local laws governing the investment of moneys under the control of the Treasurer, and as specified in the California Government Code (CGC) Section 53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the primary objectives, in priority order, of the investment activities shall be:

1. **Safety.** Safety of principal is the foremost objective of the investment program. Investments of the City of Stockton shall be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
2. **Liquidity.** The City of Stockton's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.
3. **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 account the City's investment risk constraints and the cash flow characteristics of the portfolio.

2) Scope

1. Investment procedures apply to all cash-related assets included within the City's audited financial statements and held directly by the City.
2. Bond proceeds shall be invested in accordance with the requirements and restrictions outlined in individual bond documents. Proceeds of City bonds or other debt issues in possession of a trustee or fiscal agent are not considered to be part of the financial assets covered by Investment Policy guidelines.

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3) Delegation of Authority

In accordance with the City of Stockton Municipal Code Section 3-132, management responsibility for the investment program is hereby delegated to the Treasurer. The Treasurer is defined as the Chief Financial Officer. Under the provision of CGC Section 53600.3, the Treasurer is a trustee and therefore a fiduciary subject to the prudent investor standard.

The City may engage the services of an external investment manager to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. Such an external manager may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940.

4) Prudence

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.

1. Investments shall be made in the context of the "Prudent Investor" rule which states that:

"All governing boards of Local Agencies or persons authorized to make investment decisions on behalf of the City investing public funds pursuant to Section 53600.3 of the Government code are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, 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 City."

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5) Government Code Section Guidelines

California Government Code Section	Category	Maximum Maturity	Authorized Investment Limits (% of Portfolio)	Credit Rating Limits
53601(a)	Local Agency Bonds	5 years	None	None
53601(b)	U.S. Treasuries	10 years*	None	None
53601(c)	State of CA Obligations	5 years	None	None
53601(d)	CA Local Agency Obligations	5 years	None	None
53601(e)	U.S. Agencies	10 years*	None	None
53601(f)	Bankers Acceptances	180 days	40%	None
53601(g) & 53635	Commercial Paper	270 days	25%	A-1/P-1/F-1
53601(h)	Negotiable CDs	5 years	30%	None
53691(i)	Repurchase Agreements	1 year	None	None
	Reverse Repurchase Agreements & Securities / Lending Agreements	92 days	20% of portfolio base value	None
53601(j)	Medium Term Notes	5 years	30%	A rating
53601(k)	Mutual Funds	None	20%	Multiple
53601(m)	Collateralized Bank Deposits (including non-negotiable CDs)	5 years	None	None
53601(n)	Time Deposits	5 years	None	None
53601(n)	Asset Backed Securities	5 years	20%	AA rating
53684	County Pooled Investment Funds	None	None	None
53684	Cash	None	None	None
16429.1	LAIF	None	None	None

* Securities with term to maturity greater than 5 years shall not exceed 15% of the total portfolio value.

The fundamental principles of the City's conservative philosophy are:

- a. Diversification of the portfolio by investment type and issuer - No more than five percent of the total assets of the investments held by the City of Stockton may be invested in the securities of any one issuer, except the obligations of the United States government, United States government agencies, and United States government-sponsored enterprises.

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- b. Limits on the amount which can be invested in any one type of investment and on the maximum which can be invested in any one issuer as defined in the Government Code Sections noted above.
- c. Quality standards for securities' issuers.
- d. Limits on the maximum maturity of any one investment and on the average weighted maturity of the portfolio as defined in the Government Code Sections noted above.

The City's investment strategy results in the practice of purchasing investments with the intent of holding each investment until its stated maturity. Through ongoing analysis of the portfolio, the City may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions or City needs.

6) Ethics and Conflicts of Interest

The Treasurer and any designated employees are prohibited from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions, or which could give the appearance thereof. Furthermore, these same individuals are prohibited from undertaking personal investment transactions with any individual with whom business is conducted on behalf of the City. The State of California Fair Political Practices Commission Statement of Economic Interests, Form 700, shall be completed on an annual basis by the Treasurer and any designee of the Treasurer.

7) Internal Controls

The Treasurer is responsible for establishing and maintaining a control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. Internal controls shall be in writing and shall address the following points: separation of transaction authority from accounting and record keeping, safekeeping of assets and written confirmation of telephone transactions for investments and wire transfers.

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1. Objectives of Internal Control

Internal control is the plan of organization and all the related systems established by management's objective of ensuring, as far as practicable:

- a. orderly and efficient conduct of its business, including adherence to management policies
- b. safeguarding of assets
- c. prevention and detection of errors and fraud
- d. accuracy and completeness of the accounting records, and
- e. timely preparation of reliable financial information

An internal control system, however elaborate, can provide only reasonable assurance that the objectives are met. Internal controls are reviewed periodically to ensure effectiveness.

8) Investment Committee

City Manager Administrative Directive FIN-32 established a City Investment Review Committee, and defines its membership. The committee meets on a quarterly basis and its duties include:

- a. Review the performance of the investment portfolio to ensure compliance with the Government Code and the City's Investment Policy.
- b. Advise the Chief Financial Officer regarding the City's Investment Policy and related concerns as may be appropriate.

9) Reporting: Interim and Annual

1. As described in CGC Section 536546, an Investment Report will be submitted quarterly to the City Council, and it shall be due within 30 days of the end of the quarter. This report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par and dollar amounts invested on all securities, the current market values of each component of the portfolio, the source of the portfolio valuation, investments and money's held by the City.

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2. The report shall also include the following certification:
 - a. All investment actions executed since the last report have been made in full compliance with the Investment Policy.
 - b. The City of Stockton will meet its expenditure obligations for the next six months as described in CGC Sections 53656 (b) (2) and (3) respectively.

Annually, as described in CGC Section 53646, the Treasurer will render to the City Council a statement of Investment Policy for consideration at a public meeting. Any investment currently held that becomes non compliant due to a change of the policy after its acquisition will not have to be sold immediately. As long as investments are compliant at the time of purchase they are acceptable to hold to maturity if that is the Treasurer's decision. It is not, however, acceptable to reinvest the proceeds of those maturities in any investment that does not meet the most current Investment Policy guidelines.

10) Authorized and Suitable Investments

The Treasurer selects investments that conform to Government Code section 53601 which may include:

- a. Securities of the U.S. Government, or its agencies
- b. Small Business Administration Loans
- c. Certificates of Deposit (or Time Deposits) placed with commercial banks and/or savings and loan companies
- d. Negotiable Certificates of Deposit
- e. Bankers Acceptances
- f. Commercial Paper
- g. Medium Term Notes
- h. Local Agency Investment Fund (State Pool) Demand Deposits
 - Investments made in County or other types of investment pools require due diligence.
- i. California Asset Management Program (CAMP)
- j. Repurchase Agreements – Repos
 - If the City invests in Repurchase Agreements, a Master Repurchase Agreement is required.

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- k. Demand Accounts - Insured/Collateralized Medium Term Notes
- l. Mutual Funds (SEC registered Money Market Funds limited to a percentage of the City's surplus as narrowly defined in Government Code Section 53601 et seq.)

11) Collateral Requirements

CGC Sections 53652 and 53667 require depositories to post certain types and levels of collateral for public funds on deposit above the FDIC insurance amounts. The collateral requirements apply to bank deposits, both active (checking and savings accounts) and inactive (non-negotiable time certificates of deposit).

12) Authorized Financial Institutions and Dealers

1. The Treasurer, or selected Investment Manager, will maintain a list of financial institutions authorized to provide investment services to the City.
2. The Treasurer, or selected Investment Manager, shall obtain information from qualified financial institutions to determine if the institution markets in securities appropriate for the City's needs, can assign qualified sales representatives and can provide written agreements to abide by the conditions set forth in the City of Stockton Investment Policy. Investment accounts with all financial institutions shall be standard non-discretionary accounts and may not be margin accounts.
3. Public deposits shall be made only in qualified public depositories within the State of California as established by State law. Deposits shall be insured by the Federal Deposit Insurance Corporation (FDIC), or, to the extent the amount exceeds the insured maximum, shall be collateralized with securities in accordance with State law.
4. The Financial Services Division shall verify investment trades against the bank transactions and broker confirmation tickets to ensure accuracy. On a monthly basis, the custodial asset statement shall be reconciled with the month end portfolio holdings.

13) Maximum Allowable Maturity of Investments

The investment program may include investments up to a maximum term of ten years if, in the judgment of the Treasurer, such investments will result in a more favorable rate of return for the City. Investments maturing beyond a five-

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year horizon should not exceed 15% of the total portfolio value at any given time. Investments of greater than 5 years shall be permitted for US Treasury and US Agency securities only..

14) Mitigating Risk in the Portfolio

1. Credit Risk:

- a. The City will diversify its investments to diminish the credit risk resulting from concentrations.
- b. The City, on occasion, may sell a security prior to its maturity (recording a gain or loss) in order to improve the risk structure, liquidity and yield of the portfolio in response to market condition or City needs.
- c. If securities owned by the City are downgraded by either Moody's or S&P to a level below the quality required, it shall be the Treasurer's policy to review immediately the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.

2. Market Risk: While the City recognizes that longer term portfolios achieve higher returns, longer term portfolios have higher volatility of total return. The City will limit market risk by limiting the concentrations, volume and duration of its longer term investments, as well as limiting them to funds which are not needed for current year cash flow purposes.

- a. Maturities selected shall provide for stability of income and liquidity.
- b. Portfolio maturities shall be managed to avoid undue concentration in any specific maturity sector.
- c. The Treasurer may, on occasion, sell a security prior to its maturity (recording a gain or loss) in order to diminish the portfolio's exposure to market risk.

15) Safekeeping and Delivery

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

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agreement.

2. All security transactions entered into by the City shall be conducted on a standard delivery-versus-payment (DVP) basis, which ensures that securities are deposited with the third party custodian prior to the release of funds. All securities purchased or acquired shall be delivered to the City by book entry, physical delivery or by third party custodial agreement as required by CGC Section 53601. Investments in the State Pool or money market mutual funds are undeliverable, and are not subject to third party safekeeping requirements.

16) Performance Evaluation and Operations Audit

Investment of City funds is governed by the California Government Code Sections 53600 et seq. Within the context of the limitations, the analysis and selection of investments includes prudent investment principals, review of investment performance, current and expected interest rate yields (economic and interest rate trends), diversification, and structured maturity composition to meet necessary cash flow requirements. The investment performance objective for the portfolio shall be to earn a total rate of return over a market cycle which is approximately equal to the return on a market benchmark which reflects the city's investment objectives and risk preferences.

The Treasurer shall ensure that the City's annual process of independent review by an external auditor will include an appropriate investment review to assure compliance with this policy and acceptable internal controls.

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