AGENDA ITEM

3

AGENDA STAFF REPORT

DATE: June 27, 2018

TO: Mayor and City Council

APPROVED BY: David Dale, City Manager

PREPARED BY: Karla Lobatos, Finance Director

SUBJECT: Resolution of the City Council of the City of Calexico Approving the City's Investment Policy Including Certain Revisions Thereto

==========

Recommendation:

Adopt Resolution of the City Council of the City of Calexico Approving the City's Investment Policy Including Certain Revisions Thereto.

Background:

An investment policy should always be in place. While no longer required by statute, it is in the best interest of the City to present and discuss the policy with the City Council, and then have the policy approved by a vote of the Council. A public vote signifies that the legislative body shares fiduciary responsibility with the treasurer, increases the authority and legitimacy of the investment policy, and provides transparency and disclosure.

Both the Association of Public Treasurers of the United States & Canada and the Governmental Finance Officers Association have established policy standards that recommend investment policies be reviewed annually. At a minimum, the internal treasury staff should conduct a review annually. Ideally, the review should be timed to coincide with the end of the state legislative cycle so that consideration may be given to any changes in statute that may impact the agency's policy.

Discussion & Analysis:

AGENDA ITEM 3

An update in the investment policy is warranted if treasury staff's review results in a material change in policy due to either a change in statute or a change in the agency's goals and objectives for safety, liquidity and yield. A change in statute, however, may not necessarily

require a change in the policy. Many agencies' policies are already more restrictive than statute. Calexico's prior policy was not.

Although statute does not specify the contents of the investment policy for local agencies other than counties, it should include at a minimum, the first five elements required of counties. This report conforms to that standard. In addition, the policy should specify the funds to which the policy will and will not apply. For instance, bond proceeds are usually guided by the bond documents and thus, may not be a part of the investment policy. Similarly, pension funds are guided by other code sections and have different investment objectives.

For newly-elected legislative body members, election terms may not coincide with the investment policy review. But, because of the fiduciary responsibility of the legislative body, any newly-elected members should be made aware of the existence of the investment policy and its contents as soon as possible.

Fiscal Impact:

There is no immediate fiscal impact that accompanies this report. However, the staff could be recommending certain investment opportunities at a future date that would satisfy the goals and objectives set forth in the attached Investment Policy.

Coordinated With:

None.

Attachments:

1. Resolution of the City Council of the City of Calexico Approving the City's Investment Policy Including Certain Revisions Thereto.

2. Investment Policy 2017-18.

RESOLUTION NO. 2018-_____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CALEXICO APPROVING THE CITY'S INVESTMENT POLICY INCLUDING CERTAIN REVISIONS THERETO

WHEREAS, the Finance Department has completed its annual review of the Investment Policy for the City of Calexico ("City") and has recommended certain changes thereto; and

WHEREAS, the recommended revised policy is attached to this resolution as Attachment "A"; and

WHEREAS, it is recommended that the City's Investment Policy be revised to make certain changes regarding responsibilities and updates reflecting statutory changes in California Government Code Sections 53600 through 53660; and

WHEREAS, this resolution supersedes all the resolutions adopted on or before June 27, 2018, as Resolution No. 2018-25 by the City Council of the City of Calexico approving the City's Investment Policy;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF CALEXICO THAT:

The 2017-18 City of Calexico Investment Policy is hereby approved and Attached as Attachment "A". There are no revisions to report.

PASSED, ADOPTED and APPROVED this 27th day of June, 2018, by the City Council of the City of Calexico.

_____
Maritza Hurtado, Mayor

ATTEST:

_____
Gabriela Garcia, Deputy City Clerk

APPROVED AS TO FORM:

_____
Carlos Campos, City Attorney

S E A L

State of California)
City of Calexico) ss.
County of Imperial)

I, Gabriela T. Garcia, Deputy City Clerk of the City of Calexico do hereby certify that the foregoing Resolution No. 2018-_____ was duly adopted by the Calexico City Council at a regular meeting thereof held on the 27th day of June 2018, by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

_____
Gabriela T. Garcia, Deputy City Clerk

ATTACHMENT "A"

FY 2017-18 Investment Policy

CITY OF CALEXICO

INVESTMENT POLICY

FOR FISCAL YEAR 2017-18

City of Calexico Investment Policy
FY 2017-18

TABLE OF CONTENTS

I.	Introduction	3
II.	Scope	3
III.	Prudent Person Rule	3
IV.	Objectives	4
V.	Delegation of Authority	4
VI.	Ethics/Conflict of Interest	4
VII.	Authorized Financial Dealers and Institutions	5
VIII.	Authorized and Suitable Investments	5
IX.	Investment Pools/Mutual Funds	5
X.	Collateralization	6
XI.	Safekeeping and Custody	6
XII.	Diversification	6
XIII.	Maximum Maturities	6
XIV.	Internal Control	6
XV.	Performance Standards	7
XVI.	Reporting	7
XVII.	Investment Policy Adoption	7
XVIII.	Guidelines	7
	Glossary	9

CITY OF CALEXICO INVESTMENT POLICY

For Fiscal Year 2017-18

I. INTRODUCTION

Authority to manage the City of Calexico's investment program is derived from Chapter 2.14 of the City's Municipal Code. Among the specific responsibilities vested with the Finance Director/City Treasurer are: responsibility for the investment program; management of all transactions undertaken for investments; oversight of a system of internal controls to regulate the activities of all others who may be delegated to assist or participate in the program from time-to-time. The Finance Director/City Treasurer shall establish investment policy procedures for the investment program consistent with this policy. The Finance Director/City Treasurer is responsible for the investment of bond proceeds whether held by the City or with fiscal agents. All of the aforementioned activities are subject to the City Manager's oversight and approval in his/her role as the City's chief executive.

It is the policy of the City of Calexico to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of public funds.

II. SCOPE

This investment policy applies to all financial assets of the City. These funds are accounted for inthe City's Comprehensive Annual Financial Report (CAFR) and include:

General Fund
Special Revenue Funds Debt
Service Funds Capital Project
Funds Enterprise Funds
Fiduciary Funds

This investment policy does not apply to Bond Proceeds or Deferred Compensation Funds if they fall under specific language in California Government Code Section 5922(d). This code section authorizes bond, certificates of participation notes and other debt issue proceeds to be invested in accordance with the related offering documentation. Likewise, Deferred Compensation Plans are covered elsewhere under California Government Code (CGC).

III. PRUDENT PERSON RULE

Investments shall be made with judgment and care under circumstances then in effect which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of "Prudence" to be used by investment officials shall be the "prudent person" and/or "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

IV. OBJECTIVES

There are three major objectives in the City's investment policy. They are:

1. **Safety:** Safety of principal is the foremost objective of the investment program. The City's investments 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 independence of returns and financial institutions.

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

3. **Yield on Investments:** The City's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

V. DELEGATION OF AUTHORITY

Authority from state law to manage the City's investment program is derived from CGC Section 53646. Management responsibility for the investment program is hereby delegated to the Treasurer who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials, and their procedures in the absence of the Treasurer.

The City Treasurer shall establish written investment policies and procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, Public Securities Agreements, repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Treasurer.

VI. ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from personal

business activity that could conflict with proper execution of the investment program, or which would impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Manager any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the fiscal performance of the City. All the City's employees who participate in the investment process are required by the Fair Political Practices Commission (FPPC) to complete and file a Form 700 annually.

VII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Finance Director/City Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained for approval of security broker/dealers selected by Finance Director/City Treasurer and approved by the City Council for their credit worthiness that are authorized to provide investment services in the State of California. These may include "primary" dealers or regional dealers that qualify under the Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state laws. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Finance Director/City Treasurer with the following: audited financial statements, proof of National Association of Security Dealers certification, trading resolution, proof of state registration, completed broker/dealer questionnaire, certification of having read City's investment policy and depository contracts.

An annual review of financial condition and registration of qualified bidders will be conducted by the Finance Director/City Treasurer. A current audited financial statement is required to be on file for each financial institution and broker/dealer inwhich the City invests.

VIII. AUTHORIZED AND SUITABLE INVESTMENTS

The City is empowered by statute to invest in securities and instruments as described in Figure 1 and its accompanying notes at the end of this policy statement.

Under Provisions of CGC Section 53601.6 the City shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, interest-only strips derived from mortgage pools or any investment that may result in a zero interest accrual if held to maturity. Also, the City shall not invest in Reverse Repurchased Agreements and Mortgage Pass-Through Securities.

IX. INVESTMENT POOLS/MUTUAL FUNDS

A thorough investigation of the pool/funds is required prior to investing, and on a continual basis. There shall be a questionnaire developed 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 inthe program, how often, and 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?

X. COLLATERALIZATION

Collateralization will be required on two types of investments: certificates of deposit and sweep checking accounts. Inorder to anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of market value of principal and accrued interest.

The City chooses to limit collateral to the following: certificates of deposit and sweep checking accounts held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained. The right of collateral substitution is granted.

XI. SAFEKEEPING AND CUSTODY

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

XII. DIVERSIFICATION

The City will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 50 percent of the City's total investment portfolio will be invested in a single security type or with a single financial institution. See Figure 1 and the accompanying notes for further information.

XIII. MAXIMUM MATURITIES

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

CD maturities will normally not exceed two years. U.S. Government or Agency securities will not exceed five years. At least 50 percent of the idle funds will be placed in investments which can be liquidated for at least face value in the event of an emergency. The City uses a combination of LAIF and sweep accounts for its idle funds to ensure this

requirement is met.

XIV. INTERNAL CONTROL

The Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

XV. PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

XVI. REPORTING

1. In accordance with CGC Section 53646 (8(1), the City Treasurer shall submit to each member of the City Council a quarterly investment report. The report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par values and the current market values of each component of the portfolio, including funds managed for the City of Calexico by third party contract managers. The report will also include the source of the portfolio valuation. As specified in CGC 53646 (e), if all funds are placed in LAIF, FDIC insured accounts and/or in a county investment pool, the foregoing report elements may be replaced by copies of the latest statements from such institutions. The report must also include a certification that (1) all investment actions executed since the last report have been made in full compliance with the investment policy, and, (2) the City of Calexico will meet its expenditure obligations for the next six months.

2. A staff investment committee consisting of the City Manager and the Treasurer will convene at least once a year to review the investment program. Such review shall examine both policy and administrative procedures in the program for possible revision. This meeting will normally occur in May.

3. Strategy Review: The Staff investment committee will review interest rate trends and resultant desirable investment maturity goals consistent with the City's needs for safety and liquidity in its investment program.

XVII. INVESTMENT POLICY ADOPTION

The City's investment policy shall be adopted by resolution of the City's legislative authority. Per Government code, the policy shall be reviewed annually by the City Council and any modifications made thereto must be approved by the City Council.

XVIII. GUIDELINES

Guidelines are established to direct and control activities in such a manner that previously established goals are achieved.

Investment Transactions: Every investment transaction must be authorized, documented and reviewed by the City's Treasurer.

Pooled Cash: Whenever practical, City cash should be consolidated into one bank account and invested on a pooled concept basis. Interest earnings may be allocated to fund cash and investment balances.

Competitive Bids: Purchase and sale of securities should be made on the basis of competitive offers and bids when practical.

Cash Forecast: The cash flow for the City should be analyzed with the receipt of revenues and maturity of investments scheduled so that adequate cash will be available to meet disbursement requirements.

Investment Limitations: Security purchases and holdings shall be maintained within statutory limits imposed by the Investment Policy and CGC. Any investments not listed are not subject to percentage limitations.

Bankers' Acceptance Commercial Paper Negotiable Cert. Of Dep. Medium-Term Corp. Notes:

40%	Code Section 53601 (f)
25%	Code Section 53601 (g)
30%	Code Section 53601 (h)
30%	Code Section 53601 (g)

Liquidity: The marketability (salability) of a security should be considered at the time of purchase as the security may have to be sold at a later date to meet unanticipated cash demand.

Long-Term Maturities: As a general rule, long-term maturities should not represent a significant percentage of the total portfolio, as the principal risk involved can outweigh the potential for higher earnings.

Authorized Broker/Dealers: Execute investment transactions with previously approved broker/dealers who have certified compliance with the City's investment policy.

Diversification: The portfolio should consist of a mix of various types of securities, issuers and maturities.

- Evaluation of Certificates of Deposit: The following items will govern the valuation: Time Certificates of Deposit (TCD) shall be evaluated in terms of FDIC or FSLIC coverage. For deposits in excess of the insured maximum of $250,000.

- $250,000.00, approved collateral at the amounts stated in Section X of this policy. {CGC Section 53652 and/or 53651 {m).
  Negotiable Certificates of Deposit (NCO) shall be evaluated in terms of the credit worthiness of the issuer, as these deposits are uninsured and uncollateralized notes.

###

GLOSSARY

AGENCIES: Federal agency securities and/or Government-sponsored enterprises. ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted bylaw bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

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 \he portfolio's investments.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

BROKER: A broker brings buyers and sellers together for a commission.

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.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the City. It includes five combined statements for each individual fond and account group prepared .in conformity with OMP. It also includes supporting schedules necessary to demonstrate compliance with finance- related legal and contractual provisions, extensive introductory material, and a detailed statistical section.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from

an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price sho1tly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued a discount a11d redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that Insures bank deposits, currently up to $100,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, 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 assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and *five* of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a *seven* member Board of Governors in Washington, D.C., 12 regional

banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FMHA mortgages. The term "pass-throughs" is often used to describe Ginnie Mae's.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.
LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that arc placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably to be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase-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 upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

OFFER: The price asked by a: seller of securities. {When you are buying securities, you ask for an offer.) See Asked and Bid.

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.

PORTFOLIO: Collection of securities held by an investor.

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. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by tile custody state---the so- called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use of ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond current income return.

REPURCHASE AGREEMENT (REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use REPOs extensively to finance their positions. Exception: When the Fed is said to be doing REPOs, it is lending money that is, increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market mode for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLMA, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, and derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TREASURY "BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than I 0 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as

direct obligations of the U.S. Government and having initial maturities from two to 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as non-member 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.

YIELD: The rate of annual income return on an investment, expressed as a percentage:

(a) INCOME YIELD is obtained by dividing the current dollar income by the Current Market Price for the Security.

(b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium allowed par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

ATTACHMENT "A"

FY 2017-18 Investment Policy

CITY OF CALEXICO

INVESTMENT POLICY

FOR FISCAL YEAR 2017-18

City of Calexico Investment Policy
FY 2017-18

TABLE OF CONTENTS

I.	Introduction	3
11.	Scope	3
111.	Prudent Person Rule	3
IV.	Objectives	4
V.	Delegation of Authority	4
VI.	Ethics/Conflict of Interest	4
VII.	Authorized Financial Dealers and Institutions	5
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IX.	Investment Pools/Mutual Funds	5
X.	Collateralization	6
XI.	Safekeeping and Custody	6
XII.	Diversification	6
XIII.	Maximum Maturities	6
XIV.	Internal Control	6
XV.	Performance Standards	7
XVI.	Reporting	7
XVII.	Investment Policy Adoption	7
XVIII.	Guidelines	7
	Glossary	9

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1. **Safety:** Safety of principal is the foremost objective of the investment program. The City's investments 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 independence of returns and financial institutions.

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

3. **Yield on Investments:** The City's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

V. DELEGATION OF AUTHORITY

Authority from state law to manage the City's investment program is derived from CGC Section 53646. Management responsibility for the investment program is hereby delegated to the Treasurer who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials, and their procedures in the absence of the Treasurer.

The City Treasurer shall establish written investment policies and procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, Public Securities Agreements, repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Treasurer.

VI. ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from personal

business activity that could conflict with proper execution of the investment program, or which would impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Manager any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the fiscal performance of the City. All the City's employees who participate in the investment process are required by the Fair Political Practices Commission (FPPC) to complete and file a Form 700 annually.

VII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Finance Director/City Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained for approval of security broker/dealers selected by Finance Director/City Treasurer and approved by the City Council for their credit worthiness that are authorized to provide investment services in the State of California. These may include "primary" dealers or regional dealers that qualify under the Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state laws. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Finance Director/City Treasurer with the following: audited financial statements, proof of National Association of Security Dealers certification, trading resolution, proof of state registration, completed broker/dealer questionnaire, certification of having read City's investment policy and depository contracts.

An annual review of financial condition and registration of qualified bidders will be conducted by the Finance Director/City Treasurer. A current audited financial statement is required to be on file for each financial institution and broker/dealer inwhich the City invests.

VIII. AUTHORIZED AND SUITABLE INVESTMENTS

The City is empowered by statute to invest in securities and instruments as described in Figure 1 and its accompanying notes at the end of this policy statement.

Under Provisions of CGC Section 53601.6 the City shall not invest any funds covered by this Investment Policy in inverse floaters, range notes, interest-only strips derived from mortgage pools or any investment that may result in a zero interest accrual if held to maturity. Also, the City shall not invest in Reverse Repurchased Agreements and Mortgage Pass-Through Securities.

IX. INVESTMENT POOLS/MUTUAL FUNDS

A thorough investigation of the pool/funds is required prior to investing, and on a continual basis. There shall be a questionnaire developed 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 inthe program, how often, and 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?

X. COLLATERALIZATION

Collateralization will be required on two types of investments: certificates of deposit and sweep checking accounts. Inorder to anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of market value of principal and accrued interest.

The City chooses to limit collateral to the following: certificates of deposit and sweep checking accounts held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained. The right of collateral substitution is granted.

XI. SAFEKEEPING AND CUSTODY

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

XII. DIVERSIFICATION

The City will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 50 percent of the City's total investment portfolio will be invested in a single security type or with a single financial institution. See Figure 1 and the accompanying notes for further information.

XIII. MAXIMUM MATURITIES

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

CD maturities will normally not exceed two years. U.S. Government or Agency securities will not exceed five years. At least 50 percent of the idle funds will be placed in investments which can be liquidated for at least face value in the event of an emergency. The City uses a combination of LAIF and sweep accounts for its idle funds to ensure this

requirement is met.

XIV. INTERNAL CONTROL

The Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

XV. PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

XVI. REPORTING

1. In accordance with CGC Section 53646 (8(1), the City Treasurer shall submit to each member of the City Council a quarterly investment report. The report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par values and the current market values of each component of the portfolio, including funds managed for the City of Calexico by third party contract managers. The report will also include the source of the portfolio valuation. As specified in CGC 53646 (e), if all funds are placed in LAIF, FDIC insured accounts and/or in a county investment pool, the foregoing report elements may be replaced by copies of the latest statements from such institutions. The report must also include a certification that (1) all investment actions executed since the last report have been made in full compliance with the investment policy, and, (2) the City of Calexico will meet its expenditure obligations for the next six months.

2. A staff investment committee consisting of the City Manager and the Treasurer will convene at least once a year to review the investment program. Such review shall examine both policy and administrative procedures in the program for possible revision. This meeting will normally occur in May.

3. Strategy Review: The Staff investment committee will review interest rate trends and resultant desirable investment maturity goals consistent with the City's needs for safety and liquidity in its investment program.

XVII. INVESTMENT POLICY ADOPTION

The City's investment policy shall be adopted by resolution of the City's legislative authority. Per Government code, the policy shall be reviewed annually by the City Council and any modifications made thereto must be approved by the City Council.

XVIII. GUIDELINES

Guidelines are established to direct and control activities in such a manner that previously established goals are achieved.

Investment Transactions: Every investment transaction must be authorized, documented and reviewed by the City's Treasurer.

Pooled Cash: Whenever practical, City cash should be consolidated into one bank account and invested on a pooled concept basis. Interest earnings may be allocated to fund cash and investment balances.

Competitive Bids: Purchase and sale of securities should be made on the basis of competitive offers and bids when practical.

Cash Forecast: The cash flow for the City should be analyzed with the receipt of revenues and maturity of investments scheduled so that adequate cash will be available to meet disbursement requirements.

Investment Limitations: Security purchases and holdings shall be maintained within statutory limits imposed by the Investment Policy and CGC. Any investments not listed are not subject to percentage limitations.

Bankers' Acceptance Commercial Paper Negotiable Cert. Of Dep. Medium-Term Corp. Notes:

40%	Code Section 53601 (f)
25%	Code Section 53601 (g)
30%	Code Section 53601 (h)
30%	Code Section 53601 (g)

Liquidity: The marketability (salability) of a security should be considered at the time of purchase as the security may have to be sold at a later date to meet unanticipated cash demand.

Long-Term Maturities: As a general rule, long-term maturities should not represent a significant percentage of the total portfolio, as the principal risk involved can outweigh the potential for higher earnings.

Authorized Broker/Dealers: Execute investment transactions with previously approved broker/dealers who have certified compliance with the City's investment policy.

Diversification: The portfolio should consist of a mix of various types of securities, issuers and maturities.

- Evaluation of Certificates of Deposit: The following items will govern the valuation: Time Certificates of Deposit (TCD) shall be evaluated in terms of FDIC or FSLIC coverage. For deposits in excess of the insured maximum of $250,000.

- $250,000.00, approved collateral at the amounts stated in Section X of this policy. {CGC Section 53652 and/or 53651 {m).
  Negotiable Certificates of Deposit (NCO) shall be evaluated in terms of the credit worthiness of the issuer, as these deposits are uninsured and uncollateralized notes.

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GLOSSARY

AGENCIES: Federal agency securities and/or Government-sponsored enterprises. ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted bylaw bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

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 \he portfolio's investments.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

BROKER: A broker brings buyers and sellers together for a commission.

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.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the City. It includes five combined statements for each individual fond and account group prepared .in conformity with OMP. It also includes supporting schedules necessary to demonstrate compliance with finance- related legal and contractual provisions, extensive introductory material, and a detailed statistical section.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from

an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price sho1tly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued a discount a11d redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that Insures bank deposits, currently up to $100,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, 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 assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and *five* of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a *seven* member Board of Governors in Washington, D.C., 12 regional

banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FMHA mortgages. The term "pass-throughs" is often used to describe Ginnie Mae's.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.
LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that arc placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably to be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase-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 upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

OFFER: The price asked by a: seller of securities. {When you are buying securities, you ask for an offer.) See Asked and Bid.

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.

PORTFOLIO: Collection of securities held by an investor.

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. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by tile custody state---the so- called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use of ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond current income return.

REPURCHASE AGREEMENT (REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use REPOs extensively to finance their positions. Exception: When the Fed is said to be doing REPOs, it is lending money that is, increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market mode for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLMA, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, and derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TREASURY "BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than I 0 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as

direct obligations of the U.S. Government and having initial maturities from two to 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as non-member 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.

YIELD: The rate of annual income return on an investment, expressed as a percentage:

(a) INCOME YIELD is obtained by dividing the current dollar income by the Current Market Price for the Security.

(b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium allowed par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.