



CITY OF
HAYWARD
HEART OF THE BAY

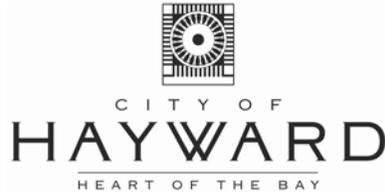
CITY COUNCIL AGENDA

OCTOBER 18, 2011

**MAYOR MICHAEL SWEENEY
MAYOR PRO TEMPORE BARBARA HALLIDAY
COUNCIL MEMBER OLDEN HENSON
COUNCIL MEMBER MARVIN PEIXOTO
COUNCIL MEMBER BILL QUIRK
COUNCIL MEMBER MARK SALINAS
COUNCIL MEMBER FRANCISCO ZERMEÑO**

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CITY COUNCIL MEETING FOR OCTOBER 18, 2011
777 B STREET, HAYWARD CA 94541
WWW.HAYWARD-CA.GOV

CLOSED SESSION
Closed Session Room 2B – 6:00 PM

1. PUBLIC COMMENTS

2. Conference with Labor Negotiators
Pursuant to Government Code 54957.6
 - Lead Negotiators: City Manager David, City Attorney Lawson, Assistant City Manager Morariu, Human Resources Director Robustelli, and Finance Director Vesely
 - Under Negotiation: All Bargaining Units
 3. Adjourn to Special Joint City Council/Redevelopment Agency/Housing Authority/Public Finance Authority Meeting
-

**SPECIAL JOINT CITY COUNCIL/REDEVELOPMENT AGENCY/
HOUSING AUTHORITY/PUBLIC FINANCE AUTHORITY MEETING**
Council Chambers - 7:00 PM

CALL TO ORDER Pledge of Allegiance Council Member Henson

ROLL CALL

CLOSED SESSION ANNOUNCEMENT

PUBLIC COMMENTS: *(The Public Comment section provides an opportunity to address the City Council on items not listed on the agenda or Work Session, or Informational Staff Presentation items. The Council welcomes your comments and requests that speakers present their remarks in a respectful manner, within established time limits, and focus on issues which directly affect the City or are within the jurisdiction of the City. As the Council is prohibited by State law from discussing items not listed on the agenda, your item will be taken under consideration and may be referred to staff.)*

ACTION ITEMS: *(The Council will permit comment as each item is called for the Consent Calendar, Public Hearings, and Legislative Business. In the case of the Boards, Commissions, Committee, Task Force, and Consent Calendar, a specific item will need to be pulled by a Council member in order for the Council to discuss the item or to permit public comment on the item. Please notify the City Clerk anytime before the Consent Calendar is voted on by Council if you wish to speak on a Consent Item.)*

CONSENT

1. Amendment to 2002 Association of Bay Area Governments (ABAG) Lease Revenue Bonds
[Staff Report](#)
[Attachment I Resolution](#)
[Attachment II Amendment](#)
2. Resolution Authorizing the City Manager to Negotiate and Execute a Lease Amendment and a Right-of-Entry with the United States of America for a Parcel of Land at the Hayward Airport Property
[Staff Report](#)
[Attachment I Resolution](#)
[Attachment II Supplemental Agreement](#)
[Attachment III Letter from National Guard](#)
[Attachment IV Right of Entry](#)
3. Annual Investment Review, Adoption of the FY 2012 Statement of Investment Policy, Delegation of Investment Authority, and Establishment of a Hayward Public Financing Authority Local Agency Investment Fund Account
[Staff Report](#)
[Attachment Ia](#)
[Attachment Ib](#)
[Attachment Ic](#)
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COUNCIL REPORTS, REFERRALS, AND FUTURE AGENDA ITEMS

Oral reports from Council Members on their activities, referrals to staff, and suggestions for future agenda items

ADJOURNMENT

NEXT REGULAR MEETING – 7:00 PM, TUESDAY, OCTOBER 25, 2011

OCTOBER 18, 2011



PUBLIC COMMENT RULES: *The Mayor may, at the beginning of the hearing, limit testimony to three (3) minutes per individual and five (5) minutes per an individual representing a group of citizens or organization. Speakers will be asked for their name and their address before speaking and are expected to honor the allotted time. A Speaker's Card must be completed by each speaker and is available from the City Clerk at the meeting.*

PLEASE TAKE NOTICE *that if you file a lawsuit challenging any final decision on any public hearing or legislative business item listed in this agenda, the issues in the lawsuit may be limited to the issues that were raised at the City's public hearing or presented in writing to the City Clerk at or before the public hearing. PLEASE TAKE FURTHER NOTICE that the City Council has adopted Resolution No. 87-181 C.S., which imposes the 90 day deadline set forth in Code of Civil Procedure section 1094.6 for filing of any lawsuit challenging final action on an agenda item which is subject to Code of Civil Procedure section 1094.5.*

****Materials related to an item on the agenda submitted to the Council after distribution of the agenda packet are available for public inspection in the City Clerk's Office, City Hall, 777 B Street, 4th Floor, Hayward, during normal business hours. An online version of this agenda and staff reports are available on the City's website. Written comments submitted to the Council in connection with agenda items will be posted on the City's website. All Council Meetings are broadcast simultaneously on the website and on Cable Channel 15, KHRT. ****

Assistance will be provided to those requiring accommodations for disabilities in compliance with the Americans with Disabilities Act of 1990. Interested persons must request the accommodation at least 48 hours in advance of the meeting by contacting the City Clerk at (510) 583-4400 or TDD (510) 247-3340.

Please visit us on:



DATE: October 18, 2011

TO: Mayor and City Council

FROM: Director of Finance

SUBJECT: Amendment to 2002 Association of Bay Area Governments (ABAG) Lease Revenue Bonds

RECOMMENDATION

That the City Council adopts the attached resolution authorizing the City Manager to execute the proposed amendment to Exhibit D of the Debt Service Reserve Delivery Agreement related to the 2002 ABAG Lease Revenue Bonds issuance.

BACKGROUND

In 2002, the City of Hayward was a participant in the issuance by the Association of Bay Area Governments of its \$14,355,000 Lease Revenue Bonds (California Capital Projects), Series 2001-2. The debt was issued to finance equipment, street lights, facility needs, and to payoff prior obligations from 1992 / 1994 bonds related to the purchase and lease of property. Currently, the budgeted debt expense is \$86,033 per year, and is part of the 2012 budget.

In connection with the bonds, the City, together with the other participating cities (Grass Valley, Solano Beach, and South Lake Tahoe), entered into a debt service reserve fund forward agreement, where the provider advanced moneys to the cities at the time of the bond closing; and the provider was awarded the right to receive investment earnings on the reserve fund.

There was an erroneous exhibit attached to the Agreement that affects the timing of the return, or credit, of each city's portion of the reserve fund when its portion of the bonds is fully paid. The reserve is established when the debt is issued, and gradually as the balance is paid down, is returned to the City. The original schedule was incorrect beginning in the year 2011 through the end of the obligation. There is no change in the total amount returned to the City.

DISCUSSION

This is a simple administrative error. The wrong reserve schedule was attached to the Agreement and has created confusion at all four cities. An example is that in 2025, the final year of the bond, the City's reserve is \$104,412 on the current, erroneous, schedule. The amended Agreement reflects the correct reserve amount of \$10,000, which is in line with the intent of the original

Agreement. There will not be a fiscal impact to the City for executing this correction. There is no other financial impact, since the bond payments have been budgeted in past years and are part of the City's on-going debt obligation.

To correct the problem, the legal firm of Quint & Timming, LLP drafted an amendment to the Agreement for each affected city to adopt. Quint & Timming as the original bond counsel associated with this issuance has drafted the new amendments for each of the involved cities. As a party to the Agreement, it is necessary for the City Council to approve the Amendment via resolution, and authorize the City Manager to sign and approve the amendment to the 2002 Agreement (see Attachment II).

FISCAL IMPACT

There is no fiscal impact as a result of authorizing this amendment, and there are no legal or changes in the payment schedule or total amount of the debt service.

NEXT STEPS

Approve the resolution and authorize the City Manager to execute the amendment to the 2002 Agreement.

Prepared and Recommended by: Tracy Vesely, Director of Finance

Approved by:



Fran David, City Manager

Attachments:

- Attachment I: Resolution Authorizing the City Manager to execute the amendment to the 2002 Agreement.
- Attachment II: The amendment to the 2002 Agreement

HAYWARD CITY COUNCIL

RESOLUTION NO. 11-

Introduced by Council Member _____

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF HAYWARD APPROVING THE FORM AND AUTHORIZING EXECUTION OF AN AMENDMENT TO THAT CERTAIN DEBT SERVICE RESERVE FORWARD DELIVERY AGREEMENT, DATED AS OF JANUARY 10, 2002, BY AND AMONG THE CITY, THE CITIES OF GRASS VALLEY, SOLANA BEACH AND SOUTH LAKE TAHOE, WELLS FARGO BANK, NATIONAL ASSOCIATION, AS TRUSTEE, AND FIRST UNION NATIONAL BANK, AS PROVIDER, IN CONNECTION WITH THE ISSUANCE BY THE ASSOCIATION OF BAY AREA GOVERNMENTS OF ITS \$14,355,000 LEASE REVENUE BONDS (CALIFORNIA CAPITAL PROJECTS) SERIES 2001-2, ISSUED IN PART TO FINANCE CAPITAL PROJECTS FOR THE CITY, AND AUTHORIZING AND DIRECTING CERTAIN ACTIONS WITH RESPECT THERETO

BE IT RESOLVED, by the City Council (the “Council”) of the City of Hayward (the “City”), as follows:

WHEREAS, the City, the Cities of Grass Valley, Solana Beach and South Lake Tahoe, Wells Fargo Bank, National Association, as trustee, and First Union National Bank (since succeeded by Wells Fargo Bank, National Association), as provider, have heretofore entered into a Debt Service Reserve Forward Delivery Agreement, dated as of January 10, 2002 (the “2002 Agreement”), in connection with the issuance by the Association of Bay Area Governments of its \$14,355,000 Lease Revenue Bonds (California Capital Projects) Series 2001-2(the “Bonds”), issued in part to finance capital projects for the City;

WHEREAS, it has been determined that it is necessary to amend the 2002 Agreement to correct an erroneous exhibit attached thereto and to insure that each affected city receives credit for its respective share of the reserve fund when its portion of the Bonds is fully paid;

WHEREAS, it is necessary that the City, as a party to the 2002 Agreement, approve such amendment; and

WHEREAS, the approval of the amendment to the 2002 Agreement and the execution thereof will impose no costs or liabilities upon the City;

NOW, THEREFORE, it is hereby ORDERED and DETERMINED, as follows:

Section 1. An amendment to the 2002 Agreement, in the form on file with the City Clerk, be and is hereby approved, and the Mayor, the City Manager, and the Finance Director, or the designee of any such official, is hereby authorized and directed to execute said document, with such changes, insertions and omissions as may be approved by such official, and the City Clerk is hereby authorized and directed to attest to such official's signature.

Section 2. The Mayor, the City Manager, the Finance Director, the City Clerk, and all other appropriate officials of the City are hereby authorized and directed to execute such other agreements, documents and certificates as may be necessary to effect the purposes of this resolution.

Section 3. The City Clerk shall certify to the passage and adoption of this Resolution, which shall take effect immediately upon its adoption.

IN COUNCIL, HAYWARD, CALIFORNIA _____, 2011

ADOPTED BY THE FOLLOWING VOTE:

AYES: COUNCIL MEMBERS:
MAYOR:

NOES: COUNCIL MEMBERS:

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

ATTEST: _____
City Clerk of the City of Hayward

APPROVED AS TO FORM:

City Attorney of the City of Hayward

**FIRST AMENDMENT TO
DEBT SERVICE RESERVE FORWARD DELIVERY AGREEMENT**

Dated as of April 1, 2011

by and among the

**CITIES OF GRASS VALLEY, HAYWARD,
SOLANA BEACH AND SOUTH LAKE TAHOE,**

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Trustee,

and

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Provider

**(Amending that certain Debt Service Reserve Forward Delivery Agreement,
dated as of January 10, 2002, by and among the Cities of Grass Valley,
Hayward, Solana Beach and South Lake Tahoe, Wells Fargo Bank, National
Association, as trustee, and First Union National Bank, as provider)**

Relating to the
\$14,355,000
Association of Bay Area Governments
Lease Revenue Bonds
(California Capital Projects) Series 2001-2

FIRST AMENDMENT TO LEASE AGREEMENT

THIS FIRST AMENDMENT TO DEBT SERVICE RESERVE FORWARD DELIVERY AGREEMENT (the "First Amendment to Debt Service Reserve Forward Delivery Agreement"), dated as of April 1, 2011, is by and among the CITIES OF GRASS VALLEY, HAYWARD, SOLANA BEACH AND SOUTH LAKE TAHOE (each, a "City" and, collectively, the "Cities"), WELLS FARGO BANK, NATIONAL ASSOCIATION, as trustee (the "Trustee"), and WELLS FARGO BANK, NATIONAL ASSOCIATION (as successor to First Union National Bank), as provider, amending that certain Debt Service Reserve Forward Delivery Agreement, dated as of January 10, 2002, by and among the Cities, the Trustee and the Provider (the 2002 Agreement");

WITNESSETH:

WHEREAS, the Cities, the Trustee, and the Provider have heretofore entered into the 2002 Agreement in connection with the funding of a reserve fund (the "Reserve Fund") for the \$14,355,000 Association of Bay Area Governments Lease Revenue Bonds (California Capital Projects), Series 2001-2 (the "Bonds"), issued in finance capital projects for the Cities;

WHEREAS, it has been determined that it is necessary to amend the 2002 Agreement to correct an erroneous exhibit attached thereto and to insure that each City receives credit for its respective share of the Reserve Fund when its portion of the Bonds is fully paid;

WHEREAS, Section 9.05 of the 2002 Agreement provides that the 2002 Agreement may be amended at any time by a written document authorized, executed and delivered by each of the parties thereto, together with the written consent of Ambac Assurance Corporation, the municipal bond insurer of the Bonds (the "Insurer"); and

WHEREAS, the consent of the Insurer has been received;

NOW, THEREFORE, in consideration of the above premises and of the mutual covenants hereinafter contained and for other good and valuable consideration, the parties hereto agree as follows:

SECTION 1. Amendment of the 2002 Agreement. The 2002 Agreement is hereby amended by replacing Exhibit D attached thereto with Exhibit A attached hereto.

SECTION 2. Execution in Counterparts. This First Amendment to Debt Service Reserve Forward Delivery Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 3. Applicable Law. This First Amendment to Debt Service Reserve Forward Delivery Agreement shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the Cities, the Trustee and the Provider have caused this First Amendment to Debt Service Reserve Forward Delivery Agreement to be executed by their respective officers thereunto duly authorized, all as of the day and year first above written.

CITY OF GRASS VALLEY

By _____
Title _____

Attest:

City Clerk

CITY OF HAYWARD

By _____
Title _____

Attest:

City Clerk

CITY OF SOLANA BEACH

By _____
Title _____

Attest:

City Clerk

CITY OF SOUTH LAKE TAHOE

By _____
Title _____

Attest:

City Clerk

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Trustee

By _____
Title _____

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Provider

By _____
Title _____

EXHIBIT A**EXHIBIT D TO
DEBT SERVICE RESERVE FORWARD DELIVERY AGREEMENT**

Delivery Date	Bond Pmt Date	Scheduled Reserve Amt
6/1/11	12/1/11	\$411,000.00
12/1/11	6/1/12	\$346,500.00
6/1/12	12/1/12	\$346,500.00
12/1/12	6/1/13	\$300,000.00
6/1/13	12/1/13	\$300,000.00
12/1/13	6/1/14	\$278,000.00
6/1/14	12/1/14	\$278,000.00
12/1/14	6/1/15	\$255,500.00
6/1/15	12/1/15	\$255,500.00
12/1/15	6/1/16	\$231,500.00
6/1/16	12/1/16	\$231,500.00
12/1/16	6/1/17	\$206,000.00
6/1/17	12/1/17	\$206,000.00
12/1/17	6/1/18	\$179,500.00
6/1/18	12/1/18	\$179,500.00
12/1/18	6/1/19	\$152,000.00
6/1/19	12/1/19	\$152,000.00
12/1/19	6/1/20	\$122,500.00
6/1/20	12/1/20	\$122,500.00
12/1/20	6/1/21	\$92,500.00
6/1/21	12/1/21	\$92,500.00
12/1/21	6/1/22	\$69,000.00
6/1/22	12/1/22	\$69,000.00
12/1/22	6/1/23	\$45,000.00
6/1/23	12/1/23	\$45,000.00
12/1/23	6/1/24	\$19,500.00
6/1/24	12/1/24	\$19,500.00
12/1/24	6/1/25	\$10,000.00
6/1/25	12/1/25	\$10,000.00

DATE: October 18, 2011

TO: Mayor and City Council

FROM: Director of Public Works

SUBJECT: Resolution Authorizing the City Manager to Negotiate and Execute a Lease Amendment and a Right-of-Entry with the United States of America for a Parcel of Land at the Hayward Airport Property

RECOMMENDATION

That Council adopts the attached resolution (Attachment I) authorizing the City Manager to negotiate and execute Supplemental Agreement No. 10 to Lease No. WO4-203-ENG-3368, and negotiate and execute a right-of-entry with the United States Government.

BACKGROUND

The City of Hayward currently leases approximately twenty-seven acres of land to the United States Government for use of the property and buildings by the California Air National Guard (CAANG) and the United States Air Force. The U.S. Department of the Army Corps of Engineers – Sacramento District office administers the lease. The agencies entered into the lease in 1949, and the lease officially expires on June 30, 2014. Since 1949, there have been nine amendments to the lease for a variety of purposes primarily concerning different uses of the property. Most of the twenty-four acre CA ANG site has remained unused since 2008; however, the Army National Guard presently occupies a three acre portion of the overall site and will continue to do so.

In February 2009, Airport staff met with the representatives from the CAANG and their environmental consultants to identify a timeline for the return of the property to the City of Hayward. Formulating a timeline was a difficult task given the complexity of the process to identify and categorize the site impacts and formulate a plan to mitigate the effects of site contamination as required by Federal and state environmental regulators. In March 2010, the Air National Guard concluded a third environmental assessment report and on June 24, 2010, the National Guard Bureau agreed in writing to return twenty-four acres of the twenty-seven acre site (less 3 acres of land the Army National Guard will retain) to the City and to accept full responsibility for cleanup of the former defense site (see Attachment III).

The CAANG now anticipates a site closure report by 2015. While the twenty-four acres are being returned to the City, a right-of-entry for an estimated four-year period is necessary to allow the CAANG to complete the required site remediation work (Attachment IV).

DISCUSSION

In 2009, in anticipation of the CAANG site being available for reuse, Airport staff issued a Request For Proposals (RFP) and selected Hayward Airport Development LLC as the proponent to redevelop the site; staff reviewed this selection with the Council's Airport Committee (CAC) at that time. However, progress on entering into a lease has been slowed by the CAANG's need to investigate and remediate soil contamination adjacent to the large CAANG hanger. As noted in a July 22, 2010 informational update to the CAC, staff presently anticipates the redevelopment of the CAANG site by Hayward Airport Development LLC to occur in phases. The initial phase will only include the existing large hanger because much of the rest of the site will need to be available for cleanup activities that, as noted above, may take four additional years to complete.

The approval of this lease amendment and transfer of possession of the property back to the City will allow Phase I development of the property to proceed. Phase I will include renovation of the former CAANG hanger and the immediate ramp area, including the installation of a fire suppression system. It should be noted that, as part of the Phase I development, Hayward Airport Development LLC has agreed to provide space for a proposed Tuskegee Airmen Museum.

ECONOMIC IMPACT

Overall economic impact of Phase I development will be minimal. However, future phases of the development will involve the construction of additional hanger buildings and several small commercial buildings along the West Winton Avenue frontage. These later phases will take at least five years to develop and, as with other development at the airport, will likely generate some additional unsecured property tax for the General Fund in addition to lease revenue for the Airport.

FISCAL IMPACT

The existing CAANG lease agreement between the Federal government and the City of Hayward provides the space in exchange for one dollar per year. The approval of this amendment to the lease and the subsequent transfer of possession of the property will allow Hayward Airport Development LLC to develop the site and provide additional ground lease revenue to the Airport.

PUBLIC CONTACT

This action is consistent with the information provided at past CAC updates regarding the redevelopment of the site and last year's approved rezoning action by Council, which is also consistent with the planned redevelopment of the site. The CAANG has and will continue to provide public information regarding their analysis and clean up plans.

NEXT STEPS

Upon City's approval of the lease amendment and subsequent execution by the Air Force and the Corps of Engineers, staff will complete negotiations with Hayward Airport Development LLC and return to Council for approval of the Phase I lease for the available portion of the CAANG site. Staff anticipates that this action should occur within the next two months.

Prepared by: Douglas McNeeley, Airport Manager

Recommended by: Robert A. Bauman, Director of Public Works

Approved by:



Fran David, City Manager

Attachments:

- Attachment I: Resolution
- Attachment II: Supplemental Lease Agreement
- Attachment III: National Guard Bureau June 24, 2010 letter
- Attachment IV: Right-of-Entry

HAYWARD CITY COUNCIL

RESOLUTION NO. 11-_____

Introduced by Council Member _____

RESOLUTION AUTHORIZING THE CITY MANAGER TO NEGOTIATE AND EXECUTE A LEASE AMENDMENT WITH THE UNITED STATES OF AMERICA TO RETURN A 24.0 ACRE PARCEL OF LAND TO THE CITY OF HAYWARD AND A RIGHT-OF-ENTRY

WHEREAS, the City of Hayward has entered into a lease No. W04-203-ENG-3368 with the United States of America for the operations of the California Air National Guard on the Hayward Executive Airport; and

WHEREAS, the federal government has ceased operations on a portion of the leased property and wishes to transfer possession of a 24.0 acre parcel to the City of Hayward; and

WHEREAS, the California Air National Guard has accepted responsibility to complete cleanup of the site and will require access to do so; and

WHEREAS, the California Air National Guard requires a Right-of-Entry to enter upon the 24.0 acre site for a period of forty-eight (48) months in order to complete environmental remediation activities.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Hayward that, the City Manager is authorized to negotiate and execute lease amendment No. 10 with the United States of America for the transfer of possession of said property to the City of Hayward and to negotiate and execute a right of entry agreement so that site cleanup work can continue to completion in a form to be approved by the City Attorney.

IN COUNCIL, HAYWARD, CALIFORNIA _____, 2011

ADOPTED BY THE FOLLOWING VOTE:

AYES: COUNCIL MEMBERS:
MAYOR:

NOES: COUNCIL MEMBERS:

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

ATTEST: _____
City Clerk of the City of Hayward

APPROVED AS TO FORM:

City Attorney of the City of Hayward

DEPARTMENT OF THE AIR FORCE
SUPPLEMENTAL AGREEMENT NO. 10
to
LEASE NO. W04-203-ENG-3368
between
THE UNITED STATES OF AMERICA
and
CITY OF HAYWARD, CALIFORNIA

WITNESSETH:

WHEREAS, The City of Hayward, A Municipal Corporation of the State of California, whose address is 777 B Street, Hayward, California 94541, hereinafter called the Lessor granted to the United States of America, hereinafter called the Government a lease for 26.51 acres, more or less, of land located in the County of Alameda, State of California being a portion of Hayward Municipal Airport (also known as Hayward Executive Airport), commencing on 24 February 1949 and terminating 30 June 1974 for State of California National Guard use; and

WHEREAS, Supplemental Agreement No. 1 added a right of way to support construction of a sewer line; and

WHEREAS, Supplemental Agreement No. 2 extended the term of this lease to 30 June 2007; and

WHEREAS, Supplemental Agreement No. 3 transferred lease to the U. S. Army Engineer District, Sacramento, California, for administration; and the administration and designated finance officer changed to the United States Property and Fiscal Officer; and

WHEREAS, Supplemental Agreement No. 4 extended this lease to 30 June 2014; and rental was changed from \$480 per annum to \$1 per annum; and reserve to the Government title to all Government-owned improvements now located or to be located on leased land; and the right to dispose of such improvements by sale for off-site removal or abandonment; and waive any and all claims to for restoration of the leased premises; and

WHEREAS, Supplemental Agreement No. 5 provided taxiway access to provide the public a connection to the public airport system across the Government's leased premises; and

WHEREAS, Supplemental Agreement No. 6 added 3.209 acres to support an Antenna Pole Farm and Fire Training Areas; and

WHEREAS, Supplemental Agreement No. 7 deleted taxiway access provided under Supplemental Agreement No. 5; and

Supplemental Agreement No. 10
Lease W04-203-ENG-3368

WHEREAS, Supplemental Agreement No. 8 added 1.205 acres and deleted 1.213 acres;
and

WHEREAS, Supplemental Agreement No. 9 allowed the Government to issue a permit to the United States Marine Corps for the purpose of mission training and vehicle repair for the period from 12 September 1989 through 1 September 1994; and

WHEREAS, the parties hereto desire to amend the lease to return and relinquish 24 acres of land, more or less, and seventeen (17) facilities to the Lessor; and to provide the Government with a right of entry to the returned 24 acres of land, more or less, for access to support the Air Force and Air National Guard's environmental investigation and restoration program; and to transfer the Government's remaining leasehold interest of approximately 3.18 acres of land, more or less, one (1) facility (Building 9) and parking lot) from the Air Force to the Army for use by the Army, the Army National Guard and its licensees and/or permittees, including, but not limited to the State of California Army National Guard; and

WHEREAS, it has been determined to be in the best interest of the Lessor and the Government to amend said lease accordingly;

NOW, THEREFORE, these parties for the consideration hereinafter mentioned, covenant and agree that the said lease is amended, effective on the execution date of this document by all parties, as follows:

1. Provision No. 2 of the Lease dated February 24, 1949, as amended by Supplemental Agreement No. 5, dated September 6, 1969, Supplemental Agreement No. 7, dated August 1, 1984 and Supplemental Agreement No. 8, dated December 6, 1989, is further amended to exclude the 24 acres, more or less, parcel of land and seventeen (17) facilities to Lessor. Such acreage and facilities are shown and described on Exhibit H, attached hereto and made a part hereof, and its return to Lessor is conditioned upon Lessor's execution of a right of entry in favor of the Government in the form attached hereto as Exhibit I.
2. Provision No. 2 of the Lease is further amended to transfer the Government's remaining leasehold interest of approximately 3.18 acres of land, more or less, from the Air Force to the Army for use by the Army, the Army National Guard and its licensees and/or permittees, including, but not limited to the State of California Army National Guard not to exceed the term of the current Lease, namely 30 June 2014. Such remaining acreage is shown and described on Exhibit J attached hereto and made a part hereof.
3. Lessor acknowledges and agrees that the Army, the Army National Guard and its licensees and/or permittees, including, but not limited to the State of California Army National Guard shall have no environmental remediation obligations with respect to the 24 acres of land returned to the Lessor pursuant to the Supplemental Agreement No. 10 and Lessor further releases the Army, the Army National Guard and its licensees and/or permittees, including, but not limited to

Supplemental Agreement No. 10
Lease W04-203-ENG-3368

the State of California Army National Guard from environmental responsibility as to the 24 acres for purposes of the Lease.

4. The Government acknowledges responsibility for remediation of all contaminated media caused by past California Air National Guard operations and will continue to conduct investigation and cleanup operations, at its sole expense on the 24 acres of land that is the subject to this Lease Supplemental Agreement with the City of Hayward, until all federal and state cleanup requirements are satisfied. The Government shall not be responsible for any future releases of hazardous materials caused by the City of Hayward, its agent, or tenants of the Hayward Municipal Airport. In addition, the City of Hayward will grant a right of entry to enter said premises to complete all remediation activities until all federal, state and local regulations are met.

THAT ALL OTHER TERMS AND CONDITIONS of the aforesaid lease are hereby ratified and, except as modified by the Supplemental Agreement, shall remain in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand by authority of the City of Hayward on this _____ day of _____, 2011.

CITY OF HAYWARD

Name and Title

Supplemental Agreement No. 10
Lease W04-203-ENG-3368

IN WITNESS WHEREOF, I have hereunto set my hand by authority of the Secretary of the Army on this _____ day of _____, 2011.

DEPARTMENT OF THE ARMY

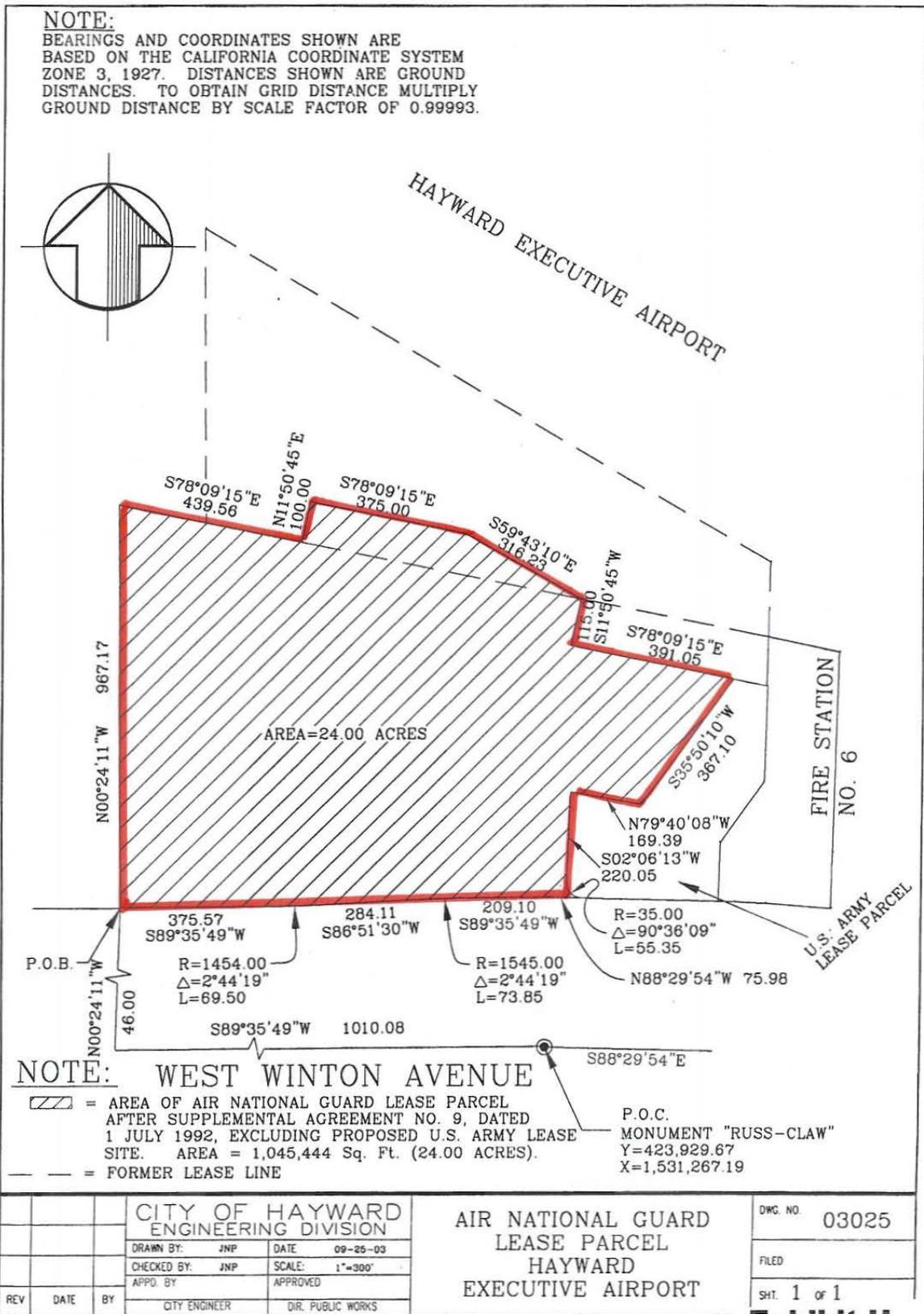
SHARON CAINE
Chief, Real Estate Division

Supplemental Agreement No. 10
Lease W04-203-ENG-3368

THIS SUPPLEMENTAL AGREEMENT is also executed by the Government under the authority of the Secretary of the Air Force this ____ day of _____, 2011.

UNITED STATES OF AMERICA

SAM C. RUPE, GS-15
Chief, Real Estate Transactions Division
Air Force Real Property Agency

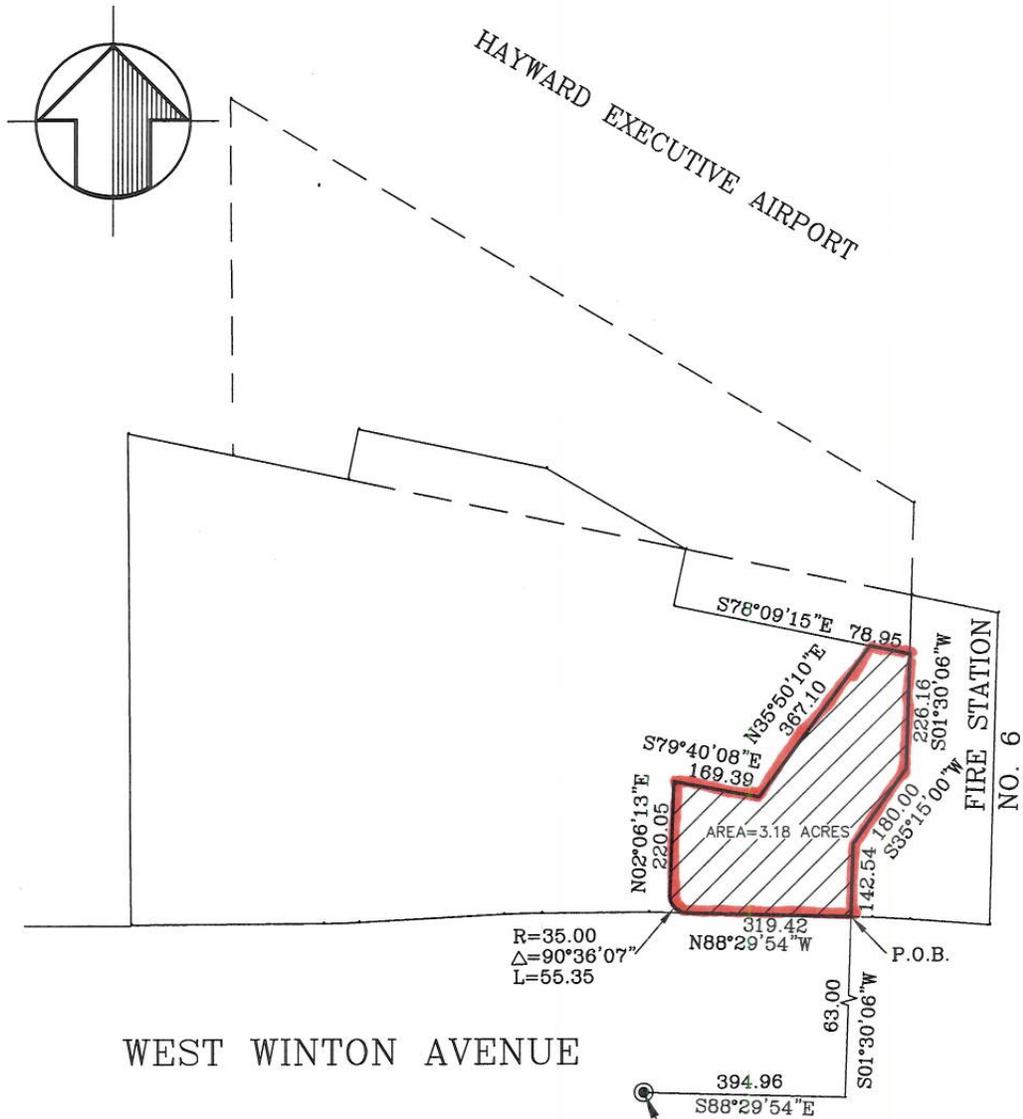


FACILITIES TO CITY OF HAYWARD
LIST

<u>Fac #</u>	<u>Nomenclature</u>	<u>Square Feet</u>
1	Reserve Forces C-E Trng	60,099
2	BE Storage Shed	9,153
3	Vehicle Maint Shop	3,959
4	Dining Hall, Airmen	8,294
5	BE Maint Shop	1,456
6	Reserve Forces C-E Trng	238
7	Reserve Forces OPL Trng	3,200
8	Reserve Forces OPL Trng	3,200
10	Reserve Forces C-E Trng	15,795
11	Reserve Forces C-E Trng	16,816
14	Whse Sup & Equip Base	3,000
15	Whse Sup & Equip Base	3,000
22	Whse Sup & Equip Base	3,000
23	Vehicle Maint Shop	1,865
24	Vehicle Maint Shop	4,000
25	Hazard Storage, Base	300
26	Whse Sup & Equip Bse	790

Exhibit H

NOTE:
 BEARINGS AND COORDINATES SHOWN ARE
 BASED ON THE CALIFORNIA COORDINATE SYSTEM
 ZONE 3, 1927. DISTANCES SHOWN ARE GROUND
 DISTANCES. TO OBTAIN GRID DISTANCE MULTIPLY
 GROUND DISTANCE BY SCALE FACTOR OF 0.99993.



NOTES:
 = AREA OF U.S. ARMY LEASE PARCEL
 AREA = 138.603 Sq.Ft. (3.18 ACRES)
 - - - = FORMER LEASE LINE

P.O.C.
 MONUMENT "RUSS-CLAW"
 Y=423,929.67
 X=1,531,267.19

			CITY OF HAYWARD ENGINEERING DIVISION		U.S. ARMY LEASE PARCEL HAYWARD EXECUTIVE AIRPORT		DWG. NO. 02024	
			DRAWN BY: BDS	DATE: 06-21-11			FILED	
			CHECKED BY: BDS	SCALE: 1"=300'			SHT. 1 of 1	
REV	DATE	BY	APPD. BY	APPROVED				
			QTY ENGINEER	DIR. PUBLIC WORKS				

EXHIBIT J



NATIONAL GUARD BUREAU

3500 FETCHET AVENUE
JOINT BASE ANDREWS MD 20762-5157

JUN 24 2010

Mr. Lloyd Partin
Airport Manager
Hayward Executive Airport
20301 Skywest Drive
Hayward, CA 94541-4699

HAYWARD

JUN 28 2010

**EXECUTIVE
AIRPORT**

Dear Mr. Partin

I am writing in response to your conversation and subsequent email message with Mr. Mark Dickerson on 6 June 2010 requesting formal notice of the Air National Guard's (ANG's) intent to return a portion of the Hayward Air National Guard Station (HANGS) property to the City of Hayward prior to the lease expiration in 2014.

As of this time, all ANG operations at the HANGS have been transferred to other military installations with only one military member working at the site to maintain the property. As you are aware, a unit of the California Army National Guard (ARNG) occupies Building 9 with associated pavements and grounds on approximately three acres of the property and will continue to do so after the ANG's lease interest is terminated. The Corps of Engineers will be directed to amend lease W04-203-ENG-3368 to return approximately 24 acres of land, 13 buildings and associated improvements to the City of Hayward and to reassign the remaining lease responsibility to the U.S. Army on behalf of the ARNG (atch 1). Also, to support the Air National Guard's environmental investigation and restoration of the returned land, a right of entry will be required from the City of Hayward. We anticipate a three month real estate process upon receiving your written concurrence to this action.

Through the Air Force's Installation Restoration Program (IRP), operated under the authority of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), the ANG is working to completely delineate all contamination caused by ANG activities at HANGS. The current phase of the IRP at HANGS involves the completion of the Remedial Investigation (RI) Report, which will determine the nature and extent of potential releases caused by ANG activities at HANGS. Once the RI Report is completed, the ANG will then prepare a Feasibility Study (FS), Proposed Plan (PP), and Record of Decision (ROD).

The ANG is planning to mobilize contract resources in the next month to collect the data required to complete the RI Report. Once this data is collected, we anticipate that the ANG will then also be able to complete the FS, PP and ROD documents mentioned above and eventually implement the remedial alternatives required to close out our IRP at HANGS. We anticipate that the RI Report and FS will receive regulatory approval by June 2011. The aviation fuel hydrant system and related contaminated soil are planned for removal by July 2011 under a separately funded project. The PP and ROD are anticipated to be approved by March 2012. Furthermore,

we anticipate having Remedy-In-Place by September 2013 and Response Complete by 2017 (estimated).

ANG acknowledges responsibility for remediation of all contamination caused by past HANGS operations and will continue to conduct investigation and cleanup operations until all Federal and State requirements are satisfied. After termination of the ANG lease interest at HANGS, the ANG will require unobstructed access to the property until all cleanup responsibilities are completed. We also request coordination on any future development plans by the Airport Authority or its tenants to ensure development activities do not impede our ability to execute investigation or cleanup related activities. We cannot guarantee that our restoration program activities will not impact tenant operations. However, as indicated, we will coordinate our actions so that adverse impacts to facility operations are minimized. In addition, because we are not at the stage of the process in which actions to mitigate contamination can be taken, intrusive development and maintenance activities may require provisions to protect workers, and to manage potentially contaminated soil. We will also require an agreement that future releases of hazardous materials by tenants are the responsibility of the tenants and the Airport Authority and will not be addressed as a part of ANG's cleanup activities.

Thank you for your consideration and interest in this matter. If you have any further questions, please feel free to contact my POC for this matter, Mr. Mark Dickerson, at (301) 836-8445 or by email at mark.dickerson@ang.af.mil.



BENJAMIN W. LAWLESS, P.E., YF-03
Chief, Operations Division

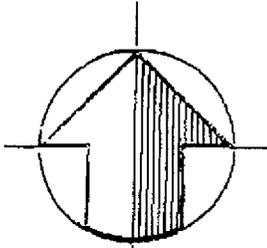
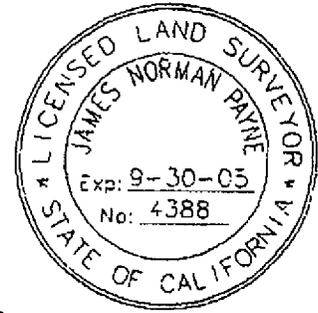
Attachment:
Site Map

cc:
162 CCG/BCE
USP&FO for California
TAG for California
NGB/A7OR
NGB/A7AR

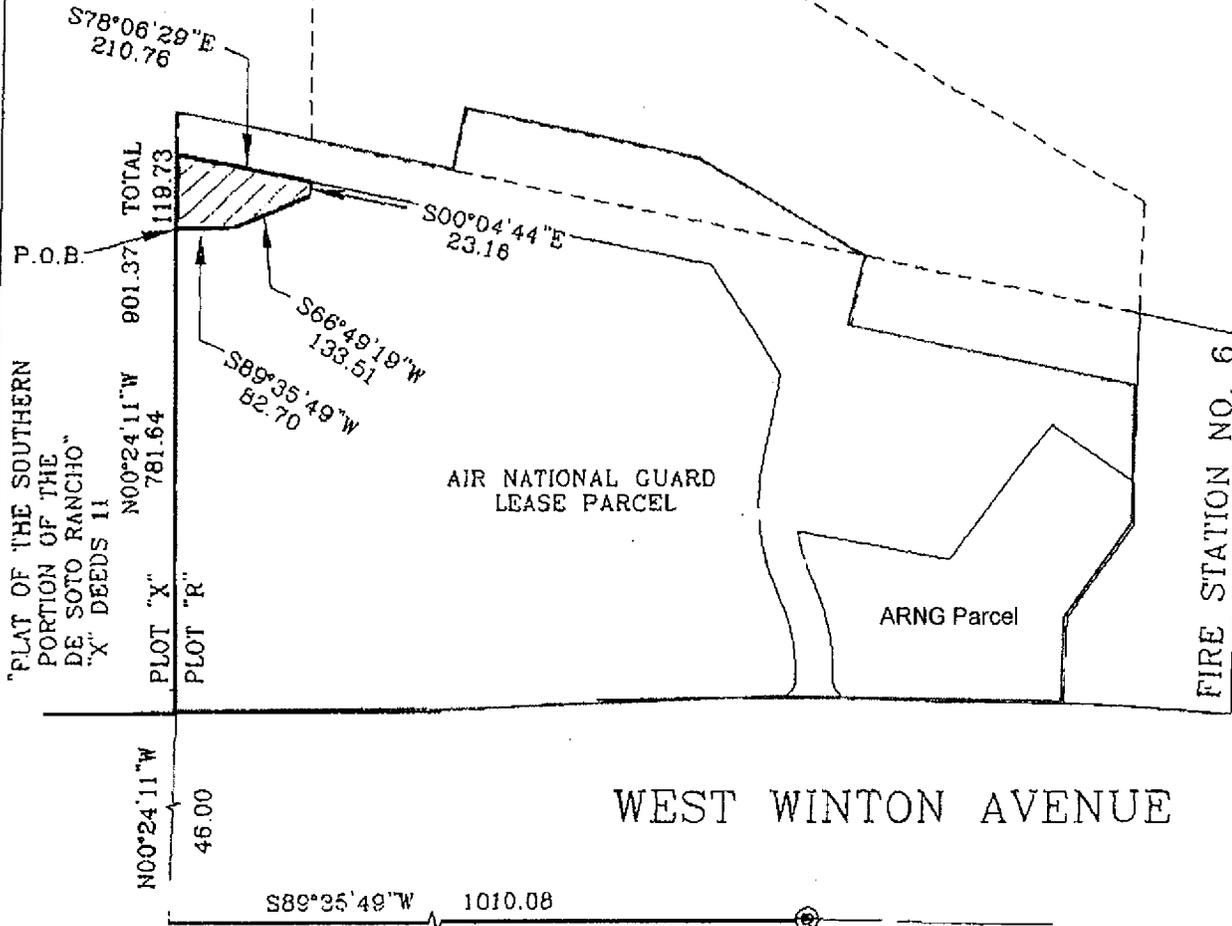
NOTE:

BEARINGS AND COORDINATES SHOWN ARE BASED ON THE CALIFORNIA COORDINATE SYSTEM ZONE 3, 1927. DISTANCES SHOWN ARE GROUND DISTANCES. TO OBTAIN GRID DISTANCE MULTIPLY GROUND DISTANCE BY SCALE FACTOR OF 0.999993.

NORMAN PAYNE
L.S. 4388
LICENSE EXPIRES 9-30-05



HAYWARD EXECUTIVE AIRPORT



NOTES:

= AREA OF F.A.A. ANTENNAE LEASE PARCEL
AREA=16845 Sq.FL. (0.39 Acre)

P.O.C.
MONUMENT "RUSS-CLAW"
Y=423,929.67
X=1,531,267.19

--- = FORMER LEASE LINE

CITY OF HAYWARD ENGINEERING DIVISION			
DRAWN BY:	JNP	DATE	06-11-02
CHECKED BY:	JNP	SCALE:	1"=300'
APPD BY:		APPROVED:	
REV	DATE	BY:	DRY ENCOUNTER / DR PLUMB WORK

F.A.A. ANTENNAE
LEASE PARCEL
HAYWARD
EXECUTIVE AIRPORT
28
Exhibit "B"

DWG. NO	02025
FILED	
SH: 1 of 1	
Page 3 of 3	

Department of the Army
RIGHT-OF-ENTRY
FOR
ENVIRONMENTAL ASSESSMENT AND RESPONSE

The undersigned, herein called the “Owner,” in consideration for the mutual benefits of the work described below, hereby grants the UNITED STATES OF AMERICA, hereinafter called the “Government”, a right-of-entry upon the following terms and conditions:

1. The Owner hereby grants to the Government an irrevocable and assignable right to enter in, on, over and across the land described in Exhibit A, for a period of four years, beginning with the date of the signing of this instrument, and terminating with the completion of the remediation activities on the former Hayward Air National Guard Station. The Government may exercise a two-year option to renew by providing written notice to the City of Hayward thirty days prior to expiration of the original term. This permit of right-of-entry is for use by the United States, its representatives, agents, and contractors, and assigns, as a work area for environmental investigation and response; including the right to store, move, and remove equipment and supplies; investigate and collect soil and ground samples; install, survey and perform sampling of monitoring wells; demolish, remove, and replace both concrete and asphalt paving; excavate and replace soil; inject oxidants and other chemicals into the ground water to treat groundwater contamination; drill, core and cut concrete; and containerize, store and pickup investigative and remediation derived waste.

And perform any other such work which may be necessary and incident to the Government’s use for the investigation and response on said lands; subject to existing easements for public roads and highways, public utilities, railroads and pipelines; reserving, however, to the landowner(s), their heirs, executors, administrators, successors and assigns, all such right, title, interest, and privilege as may be used and enjoyed without interfering with or abridging the rights and right-of-entry hereby acquired.

2. The Owner also grants the right to enter and exit over and across any other lands of the Owner as necessary to use the described lands for the purposes listed above. The United States, its representatives, contractors, and agents shall be allowed unrestricted access to the site necessary to monitor, sample and perform any actions necessary to complete mitigation of the site, providing 48 hours notice is given to the Hayward Airport office prior to any visit.

3. All tools, equipment, and other property taken upon or placed upon the land by the Government shall remain the property of the Government and may be removed by the Government at any time within a reasonable period after the expiration of this permit of right-of-entry.

4. If any action of the Government’s employees or agents in the exercise of this right-of-entry result in damage to the real property, the Government will, in its sole discretion, either repair such damage or make an appropriate settlement with the Owner. In no event shall such repair or settlement exceed the fair market value of the fee title to the real property at the time

immediately preceding such damage. The Government's liability under this clause is subject to the availability of appropriations for such payment, and nothing contained in this agreement may be considered as implying that Congress will at a later date appropriate funds sufficient to meet deficiencies. The provisions of this clause are with prejudice to any rights the Owner may have to make a claim under applicable laws for any damages other than those provided for herein.

5. All documentation concerning site cleanup and related activities shall be shared with the City during all phases of such action, until such time as the United States obtains official site closure by all agencies having oversight.

6. The land affected by this permit of right-of-entry is located in the County of Alameda, State of California and is identified by the RED outline on Exhibit A.

WITNESS MY HAND AND SEAL this _____ day of _____, 2010.

Frances David
City Manager
City of Hayward

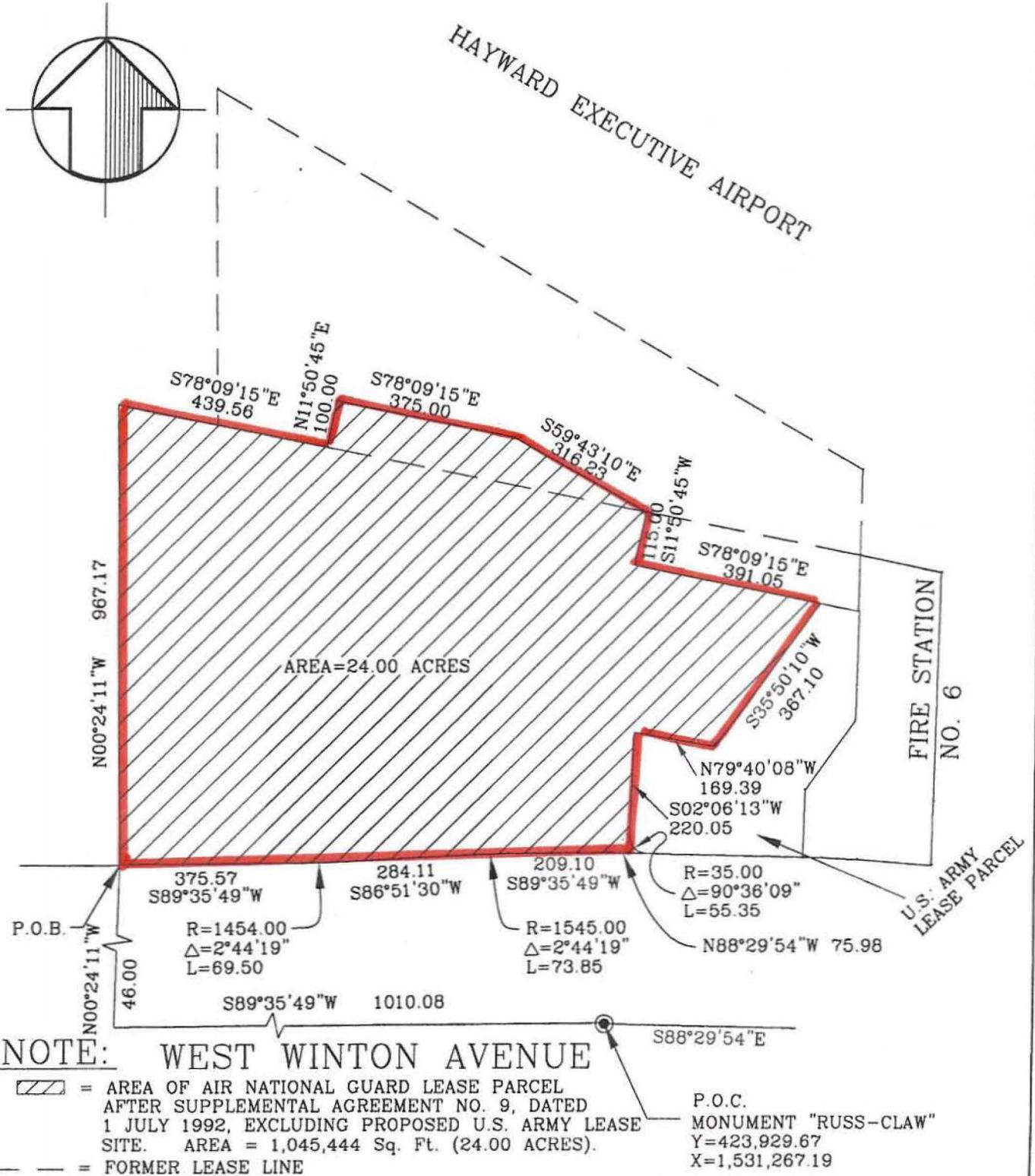
UNITED STATES OF AMERICA

By: _____
Brian Brown
Chief, Real Estate Transactions
Air Force Real Property Agency

Date: _____

NOTE:

BEARINGS AND COORDINATES SHOWN ARE BASED ON THE CALIFORNIA COORDINATE SYSTEM ZONE 3, 1927. DISTANCES SHOWN ARE GROUND DISTANCES. TO OBTAIN GRID DISTANCE MULTIPLY GROUND DISTANCE BY SCALE FACTOR OF 0.99993.



NOTE:

WEST WINTON AVENUE

▨ = AREA OF AIR NATIONAL GUARD LEASE PARCEL AFTER SUPPLEMENTAL AGREEMENT NO. 9, DATED 1 JULY 1992, EXCLUDING PROPOSED U.S. ARMY LEASE SITE. AREA = 1,045,444 Sq. Ft. (24.00 ACRES).
 - - - = FORMER LEASE LINE

CITY OF HAYWARD ENGINEERING DIVISION			AIR NATIONAL GUARD LEASE PARCEL HAYWARD EXECUTIVE AIRPORT	DWG. NO. 03025
DRAWN BY: JNP	DATE: 09-25-03	SCALE: 1"=300'		FILED
CHECKED BY: JNP	APPROVED			Page 3 of 3
REV	DATE	BY	CITY ENGINEER	DIR. PUBLIC WORKS

DATE: October 18, 2011

TO: Mayor and City Council
Housing Authority Board Members
Redevelopment Agency Board Members
Public Financing Authority Members

FROM: Director of Finance

SUBJECT: Annual Investment Review, Adoption of the FY 2012 Statement of Investment Policy, Delegation of Investment Authority, and Establishment of a Hayward Public Financing Authority Local Agency Investment Fund Account

RECOMMENDATION

That the Council adopts the attached resolutions: accepting the Annual Investment Report; reaffirming the Statement of Investment Policy; extending the delegation of investment authority to the Director of Finance; and that the City Council and Public Financing Authority Board authorize the Director of Finance to create a Local Agency Investment Fund (LAIF) account for the Hayward Public Financing Authority.

BACKGROUND

The City's Statement of Investment Policy requires that staff prepare an annual report on the City's investment program and investment activity, and submit to the City Council any recommended changes to the City's Statement of Investment Policy. In addition, the State statutes that govern investment activity require the City Council to annually affirm the Statement of Investment Policy, and to annually confirm the delegation of investment authority, which in the City of Hayward, is to the Director of Finance.

Staff is proposing two changes to the Investment Policy: (1) to allow the Director of Finance, upon authorization by the City Council, to engage an external investment management firm to assist with the City's portfolio investments and (2) for the City Council to give authority for the Director of Finance to establish a Local Agency Investment Fund (LAIF) account for the Hayward Public Financing Authority.

DISCUSSION

Economic Outlook: The Federal Reserve Board's Federal Open Market Committee (FOMC) released an updated economic statement on September 21, 2011. Information received since the Federal Open Market Committee met in August 2011, as reflected in the following statement

excerpt, indicates that economic growth remains slow.

Recent indicators point to continuing weakness in overall labor market conditions, and the unemployment rate remains elevated. Household spending has been increasing at only a modest pace in recent months despite some recovery in sales of motor vehicles as supply-chain disruptions eased. Investment in nonresidential structures is still weak, and the housing sector remains depressed. However, business investment in equipment and software continues to expand. Inflation appears to have moderated since earlier in the year as prices of energy and some commodities have declined from their peaks. Longer-term inflation expectations have remained stable. The FOMC expects the pace of recovery to improve over coming quarters but anticipates that the unemployment rate will decline only modestly. Moreover, there are significant downside risks to the economic outlook, including strains in global financial markets.

The FOMC decided to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that economic conditions, including low rates of resource utilization and a subdued outlook for inflation over the medium run, are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013.

This forecast impacts the City of Hayward, most visibly through the City's property tax and sales tax revenues. Both are slow to recover and the City continues to face a significant structural deficit in the General Fund. The assumptions built into the General Fund Ten-Year Plan reflect very conservative growth assumptions, consistent with the FOMC forecast. In addition, the City's interest earnings have declined significantly over the past several years as a result of the market downturn.

FY 2011 Annual Investment Review: The annual review (Attachment II) is provided to apprise the members of the City Council on the performance, composition, quality, diversity, and liquidity of the City investment portfolio during the preceding fiscal year (July 1, 2010 – June 30, 2011), providing an opportunity to ensure compliance with the City's Investment Policy.

Investment Activity

In managing the City Of Hayward's Investment Portfolio, the City's primary objectives are safety, liquidity, and yield.

1. Safety - Safety of principal is the foremost objective of the City, followed by liquidity and yield. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from securities defaults or erosion of market value.
2. Liquidity - The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated. This need for investment liquidity may be tempered to the extent that the City is able to issue short-term notes to meet its operating requirements.
3. Yield - The investment portfolio shall be managed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow requirements, and state and local law, ordinances or resolutions that

restrict the placement of short-term funds. Investment decisions should not incur unreasonable investment risks in order to obtain current investment income.

As shown Table 1, FY 2011 unaudited portfolio interest totaled \$1.514 million, which was a decline of approximately 33% or \$735,000 from the previous year. FY 2011 annual portfolio yield was 0.79%, which was a decline of approximately 31% from the previous year. FY 2011 portfolio yield is still higher than the goal yield, which is 50 basis points (0.50%). Besides the reduction in interest rates, the City’s interest bearing assets dropped by 3% compared to last year. FY 2011 average monthly cash available for investment was \$170 million, a decline of approximately 4% (\$7.5 million) from the previous year. Available cash for investment will fluctuate due to the composition of the pooled cash portfolio and the need to expend funds for City operations.

Table 1

Annual Average Comparison

<i>(\$ in 000's)</i>	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Annual Portfolio Yield	5.06%	4.59%	3.06%	1.14%	0.79%
Annual Accrued Interest	\$8,643	\$8,434	\$5,410	\$2,249	\$1,514
Annual Avg Portfolio Balance	\$177,590	\$184,095	180,424	\$177,241	\$169,702

The Investment Advisory Committee (IAC) – The purpose of the IAC is to oversee the implementation of the City’s investment program and ensure compliance with the Statement of Investment Policy. Appointed by the City Manager, the IAC is comprised of the Director of Finance (Director Vesely), who chairs the quarterly meetings for the Committee; the Assistant City Manager (ACM Morariu); the City Attorney (represented by Assistant City Attorney Conneely); two department directors appointed by the City Manager (represented by Maintenance Services Director McGrath and Fire Chief Bueno); and two community members, one member from the financial academic community and one from the local banking community (both currently vacant).

FY 2012 Statement of Investment Policy – The Statement of Investment Policy was reviewed by the Investment Advisory Committee on September 27, 2011, and by the Council Budget & Finance Committee on September 28, 2011. Both bodies approved the policy as amended and recommend approval by the City Council.

Staff Recommendation – Changes to Investment Policy

Staff recommends that the City Council adopts the revised FY 2012 Statement of Investment Policy. The policy contains one substantive change since last adopted by City Council: updated language to Section IV (Delegation of Authority) to allow the Director of Finance, upon authorization by the City Council, to engage an external investment management firm to assist with the City’s portfolio investments.

Staff also recommends that the City Council and Public Financing Authority Board authorize the Director of Finance to create a Local Agency Investment Fund (LAIF) account for the Hayward Public Financing Authority.

Establish Authority for External Investment Management Firm

Currently, the Director of Finance is responsible for the direct investment of City funds. While the Director of Finance will continue to be the responsible officer of the City regarding the City's portfolio, staff would like to consider the option of hiring an external investment management firm to assist with the portfolio management. As staffing resources have decreased, and the responsibilities of Finance Directors have broadened, municipalities are increasingly seeking assistance with their portfolio management. The Investment Advisory Committee has considered this issue and supports creating the authority within the Investment Policy to hire an external investment management firm, and supports the Director of Finance in seeking such a firm.

The Government Finance Officers Association (GFOA) recognizes that many local governments use the services of investment management firms and offers best practice guidelines in the selection and utilization of such firms. The City will conduct the appropriate bidding/contracting process in conformance with GFOA recommended standards.

The City's external auditor, Maze & Associates, is in the process of conducting the audit of the City's financial statements for the period ending June 30, 2011. As part of their preliminary review, the auditor provided an Accounting Issues Memo. This memo identifies that the City does not currently have a balanced investment portfolio, and cites the cause for this condition as the lack of an official Investment Manager. The auditor recommends that the City consider hiring a third party investment manager to better manage and diversify the investment portfolio.

Given that the City currently has a large amount of its pooled cash in LAIF, the earnings on the portfolio are relatively low. With the assistance of an investment management firm, staff hopes to increase earnings by a minimum of 1%, which will help to offset the cost of this critical service, as well as minimally increase interest earnings accruing to the City's General Fund.

Hayward Public Financing Authority LAIF Account

LAIF has a maximum deposit cap of \$50 million per agency account. Currently, the City of Hayward has three general accounts: City of Hayward, the Hayward Housing Authority, and the Hayward Redevelopment Agency. Given the status of California Redevelopment Agencies, the City of Hayward has discontinued use of the Hayward Redevelopment Agency LAIF account. The remaining two accounts are at the maximum deposit amount. From time to time, the City's cash flow requires additional short-term investment accounts. Creating a fourth LAIF account under the Hayward Public Financing Authority provides the flexibility for managing the City's liquidity and cash flow while keeping the Redevelopment Agency LAIF account idle.

It is not the intent of staff to invest the maximum amount in all three active accounts (total of \$150 million). Instead, staff will pursue a diversified portfolio that conforms to the City's Investment Policy. The fourth account (Hayward Redevelopment Agency) will remain inactive.

Annual Adoption of Delegation of Investment Authority

The City Council annually affirms the delegation of investment authority in the attached resolutions (Attachments I a-c), authorizing the Director of Finance to conduct investment activities for the City, Redevelopment Agency, Housing Authority, and Hayward Public Financing Authority.

FISCAL IMPACT

There are no fiscal impacts from accepting the Annual Investment Report and renewing the delegation of authority to the Director of Finance to make investments. As a point of reference, unaudited interest income for FY 2011 totaled \$1,514,415, which is \$782,003 less than budgeted interest earnings of \$2,296,418. Staff hopes that the assistance of a third party investment management firm will help rebalance the City's portfolio and modestly increase interest earnings.

PUBLIC CONTACT

The Investment Advisory Committee reviewed the Annual Investment Report and Statement of Investment Policy on September 27, 2011, and meets quarterly to review general investment strategies and monitor results. The Budget & Finance Committee reviewed the Annual Investment Report and Statement of Investment Policy on September 28, 2011 and recommended approval of the proposed changes to Council.

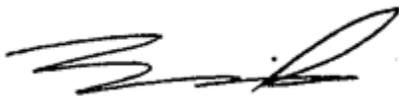
SCHEDULE

This report is prepared annually in compliance with the City and State requirements.

Prepared by: Alita Reinecker, Interim Budget Officer

Recommended by: Tracy Vesely, Director of Finance

Approved by:



Fran David, City Manager

Attachments:

- I: Resolutions (4)
 - I-a – City – Accepting the Annual Report, Reaffirming Statement of Investment Policy, and Renewing Delegation of Authority to Make Investments
 - I-b – Housing Authority - Accepting the Annual Report, Reaffirming Statement of Investment Policy, and Renewing Delegation of Authority to Make Investments

I-c – Redevelopment Agency - Accepting the Annual Report, Reaffirming Statement of Investment Policy, and Renewing Delegation of Authority to Make Investments

I-d – Hayward Public Financing Authority - Accepting the Annual Report, Affirming Statement of Investment Policy, and Renewing Delegation of Authority to Make Investments

II: FY 2011 Annual Investment Review

III: FY 2012 Statement of Investment Policy

HAYWARD CITY COUNCIL

RESOLUTION NO. 11 -

Introduced by Council Member _____

RESOLUTION ACCEPTING THE ANNUAL REPORT ON
INVESTMENT PROGRAM AND ACTIVITY FOR THE CITY
OF HAYWARD, REAFFIRMING THE STATEMENT OF
INVESTMENT POLICY AND RENEWING THE
DELEGATION OF AUTHORITY TO MAKE INVESTMENTS
TO THE DIRECTOR OF FINANCE

WHEREAS, by Resolution No.10-153, dated October 12, 2010, the City Council adopted a Statement of Investment Policy for the City of Hayward; and

WHEREAS, the Director of Finance has submitted the annual report to the City Council in accordance with the Investment Policy; and

WHEREAS, under section 53607 of the California Government Code, the authority of the legislative body to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one-year period by the legislative body to the treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires, and shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Hayward that the report entitled "FY 2011 Annual Investment Review," a copy of which is on file in the office of the City Clerk of the City of Hayward, is hereby accepted as the annual report required by the investment policy of the City of Hayward.

BE IT FURTHER RESOLVED that the FY 2012 Statement of Investment Policy is hereby reaffirmed as amended, and that the authority of the Director of Finance, or his or her designee, to make investments pursuant to the Policy is hereby renewed.

BE IT FURTHER RESOLVED that the Director of Finance and his/her successors in office is authorized to order the deposit or withdrawal of money in the accounts of the City of Hayward, the Public Financing Authority, the Redevelopment Agency, and the Housing Authority within the Local Agency Investment Fund of the State of California for the purpose of investment in accordance with the provisions of Section 16429.1 of the California Government Code; and further authorized to delegate responsibility for daily deposits or withdrawals of money in the above referenced accounts as required to ensure proper functioning of the fiscal operations of the City and these agencies.

IN COUNCIL, HAYWARD, CALIFORNIA October __, 2011

ADOPTED BY THE FOLLOWING VOTE:

AYES: COUNCIL MEMBERS:
MAYOR:

NOES: COUNCIL MEMBERS:

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

ATTEST: _____
City Clerk of the City Of Hayward

APPROVED AS TO FORM:

City Attorney of the City of Hayward

HOUSING AUTHORITY OF THE CITY OF HAYWARD

RESOLUTION NO. 11-

Introduced by Board Member _____

RESOLUTION ACCEPTING THE ANNUAL REPORT ON
INVESTMENT PROGRAM AND ACTIVITY FOR THE CITY
OF HAYWARD HOUSING AUTHORITY, REAFFIRMING THE
STATEMENT OF INVESTMENT POLICY AND RENEWING THE
DELEGATION OF AUTHORITY TO MAKE INVESTMENTS
TO THE DIRECTOR OF FINANCE

WHEREAS, by Resolution No. HA 10-01, dated October 12, 2010, the Housing Authority Board of Directors adopted a Statement of Investment Policy for the City of Hayward; and

WHEREAS, the Director of Finance has submitted the annual report to the City Council in accordance with the Investment Policy; and

WHEREAS, under section 53607 of the California Government Code, the authority of the legislative body to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one-year period by the legislative body to the treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires, and shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year.

NOW, THEREFORE, BE IT RESOLVED by the Housing Authority Board of the City of Hayward that the report entitled "FY 2011 Annual Investment Review," a copy of which is on file in the office of the City Clerk of the City of Hayward, is hereby accepted as the annual report required by the investment policy of the City of Hayward.

BE IT FURTHER RESOLVED that the FY2012 Statement of Investment Policy is hereby reaffirmed as amended, and that the authority of the Director of Finance, or his or her designee, to make investments pursuant to the Policy is hereby renewed.

BE IT FURTHER RESOLVED that the Director of Finance and his/her successors in office is authorized to order the deposit or withdrawal of money in the accounts of the City of Hayward, the Public Financing Authority, the Redevelopment Agency, and the Housing Authority within the Local Agency Investment Fund of the State of California for the purpose of investment in accordance with the provisions of Section 16429.1 of the California Government Code; and further authorized to delegate responsibility for daily deposits or withdrawals of money in the above referenced accounts as required to ensure proper functioning of the fiscal operations of the City and these agencies.

IN COUNCIL, HAYWARD, CALIFORNIA October __, 2011.

ADOPTED BY THE FOLLOWING VOTE:

AYES: BOARD MEMBERS:

CHAIR:

NOES: BOARD MEMBERS:

ABSTAIN: BOARD MEMBERS:

ABSENT: BOARD MEMBERS:

ATTEST: _____
Secretary of the Housing Authority
of the City of Hayward

APPROVED AS TO FORM:

General Counsel of the Housing Authority for
the City of Hayward

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD

RESOLUTION NO. RA- 11-

Introduced by Agency Member _____

RESOLUTION ACCEPTING THE ANNUAL REPORT ON
INVESTMENT PROGRAM AND ACTIVITY FOR THE REDEVELOPMENT
AGENCY OF THE CITY OF HAYWARD, REAFFIRMING THE STATEMENT
OF INVESTMENT POLICY AND RENEWING THE DELEGATION OF
AUTHORITY TO MAKE INVESTMENTS TO THE DIRECTOR OF FINANCE

WHEREAS, by Resolution No. RA 10-17, dated October 12, 2010, the Agency Members adopted a Statement of Investment Policy for the RDA for the City of Hayward; and

WHEREAS, the Director of Finance has submitted the annual report to the City Council in accordance with the Investment Policy; and

WHEREAS, under section 53607 of the California Government Code, the authority of the legislative body to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one-year period by the legislative body to the treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires, and shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year.

NOW, THEREFORE, BE IT RESOLVED by the Agency Members of the RDA of the City of Hayward that the report entitled "FY 2011 Annual Investment Review," a copy of which is on file in the office of the City Clerk of the City of Hayward, is hereby accepted as the annual report required by the investment policy of the City of Hayward.

BE IT FURTHER RESOLVED that the FY2012 Statement of Investment Policy is hereby reaffirmed as amended, and that the authority of the Director of Finance, or his or her designee, to make investments pursuant to the Policy is hereby renewed.

BE IT FURTHER RESOLVED that the Director of Finance and his/her successors in office is authorized to order the deposit or withdrawal of money in the accounts of the City of Hayward, the Public Financing Authority, the Redevelopment Agency, and the Housing Authority within the Local Agency Investment Fund of the State of California for the purpose of investment in accordance with the provisions of Section 16429.1 of the California Government Code; and further authorized to delegate responsibility for daily deposits or withdrawals of money in the above referenced accounts as required to ensure proper functioning of the fiscal operations of the City and these agencies.

IN COUNCIL, HAYWARD, CALIFORNIA October __, 2011

ADOPTED BY THE FOLLOWING VOTE:

AYES: AGENCY MEMBERS:
CHAIR:

NOES: AGENCY MEMBERS:

ABSTAIN: AGENCY MEMBERS:

ABSENT: AGENCY MEMBERS:

ATTEST: _____
Secretary of the Redevelopment Agency
of the City Of Hayward

APPROVED AS TO FORM:

General Counsel

HAYWARD PUBLIC FINANCING AUTHORITY

RESOLUTION NO. 11 -

Introduced by Board Member _____

RESOLUTION ACCEPTING THE ANNUAL REPORT ON INVESTMENT PROGRAM AND ACTIVITY FOR THE CITY OF HAYWARD PUBLIC FINANCING AUTHORITY, AFFIRMING THE STATEMENT OF INVESTMENT POLICY AND RENEWING THE DELEGATION OF AUTHORITY TO MAKE INVESTMENTS TO THE DIRECTOR OF FINANCE AND ESTABLISHING A HAYWARD PUBLIC FINANCING AUTHORITY AGENCY ACCOUNT IN THE LOCAL AGENCY INVESTMENT FUND AND AUTHORIZING INVESTMENT OF MONIES THEREIN

WHEREAS, the Director of Finance has submitted the annual report to the Board of Directors of the Hayward Public Financing Authority in accordance with the Investment Policy; and

WHEREAS, under section 53607 of the California Government Code, the authority of the legislative body to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one-year period by the legislative body to the treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires, and shall make a monthly report of those transactions to the legislative body. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year; and

WHEREAS, pursuant to Chapter 730 of the statutes of 1976, Section 16429.1 was added to the California Government Code to create a Local Agency Investment Fund (LAIF) in the State Treasury for the deposit of money of a local agency for purposes of investment by the State Treasurer; and

WHEREAS, the Board of Directors of the Hayward Public Financing Authority does hereby find that the deposit and withdrawal of money in the LAIF in accordance with the provisions of Section 16429.1 of the Government Code for the purpose of investment as stated therein as in the best interests of the City of Hayward; and

WHEREAS, the City of Hayward currently has established LAIF accounts for City of Hayward, Hayward Housing Authority, and Hayward Redevelopment Agency.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Hayward Public Financing Authority that the report entitled "FY 2011 Annual Investment Review," a copy

of which is on file in the office of the City Clerk of the City of Hayward, is hereby accepted as the annual report required by the investment policy of the Hayward Public Financing Authority.

BE IT FURTHER RESOLVED that the Statement of Investment Policy is hereby affirmed as amended, and that the authority of the Director of Finance, or his or her designee, to make investments pursuant to the Policy is hereby renewed.

BE IT FURTHER RESOLVED, that the Board of Directors of the Hayward Public Financing Authority does hereby authorize the creation of a Local Agency Investment Fund for the Hayward Public Financing Authority for the deposit and withdrawal of the City of Hayward monies in the Local Agency Investment Fund in the State Treasury in accordance with the provisions of Section 16429.1 of the Government Code for the purpose of investment as stated therein and verification by the State Treasurer's Office of all banking information provided in that regard.

BE IT FURTHER RESOLVED that the Director of Finance and his/her successors in office is authorized to order the deposit or withdrawal of money in the accounts of the City of Hayward, the Public Financing Authority, the Redevelopment Agency, and the Housing Authority within the Local Agency Investment Fund of the State of California for the purpose of investment in accordance with the provisions of Section 16429.1 of the California Government Code; and further authorized to delegate responsibility for daily deposits or withdrawals of money in the above referenced accounts as required to ensure proper functioning of the fiscal operations of the City and these agencies.

IN COUNCIL, HAYWARD, CALIFORNIA October __, 2011

ADOPTED BY THE FOLLOWING VOTE:

AYES: BOARD MEMBERS:
MAYOR:

NOES: BOARD MEMBERS:

ABSTAIN: BOARD MEMBERS:

ABSENT: BOARD MEMBERS:

ATTEST: _____
Secretary of the Hayward
Public Financing Authority

APPROVED AS TO FORM:

General Counsel of the Hayward
Public Financing Authority



CITY OF
HAYWARD
HEART OF THE BAY

FY 2011 Annual Investment Review

Summary

The annual review provides an overview of the year's investment activities.



The annual review is provided to the City Council as a supplement to monthly investment reports. The annual review is prepared in compliance with the City of Hayward Investment Policy and California Government Code. The purpose of the report is to apprise the members of the City Council on the performance, composition, quality, diversity, and liquidity of the City investment portfolio during the preceding fiscal year.

The report provides an opportunity for the City Council to conduct its review, and annually adopt the Statement of Investment Policy in accordance with City and State requirements; and to amend the policy as recommended or as required to meet local needs or legal requirements.

Prudent management, along with a sound Investment Policy have ensured a solid Investment Program.

FY 2011—Year In Review

Annual Average Comparison (\$ in 000's)					
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Annual Portfolio Yield	5.06%	4.59%	3.06%	1.14%	0.79%
Annual Accrued Interest	\$8,643	\$8,434	\$5,410	\$2,249	\$1,514
Annual Avg Portfolio Balance	\$177,590	\$184,095	\$180,424	\$177,241	\$169,702

Staff continued to maintain an emphasis on safety, liquidity, and yield in FY 2011.

FY 2011 unaudited portfolio interest totaled \$1.514 million, which was a decline of approximately 33% or \$735 thousand from the previous year. Rates available for investment in FY 2011 were extremely low and the portfolio balance has reduced as well. FY 2011 annual portfolio yield was 0.79%, which was a decline of approximately 31% (3100 basis points) from the previous year. Besides the reduction in interest rates, our interest bearing asset dropped by 3% compared to last year. A portion of the decline in overall yield was due to transfers from the LAIF account to general checking. The transfer was in light of the State's activities regarding redevelopment agencies. For FY 2011, average monthly cash available for investment was \$170 million, a decline of approximately 4% (\$7.5 million) from the previous year.

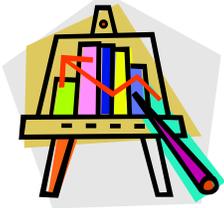
FY 2011 Overview

- **\$1.5 million**— unaudited annual interest income.
- **0.79%**—average annual yield.
- **\$170 million**— average monthly cash available for investment.

Inside:

Available Investment Rates	2
Portfolio Yield	2
Cash & Interest Earnings	3
Monthly Maturity Comparison	4
Average Liquidity	5
Fair Market Value	5
Portfolio Make-Up & Credit Worthiness	6
Oversight & Accounting	7
Policy Changes	8
Future Strategy	8

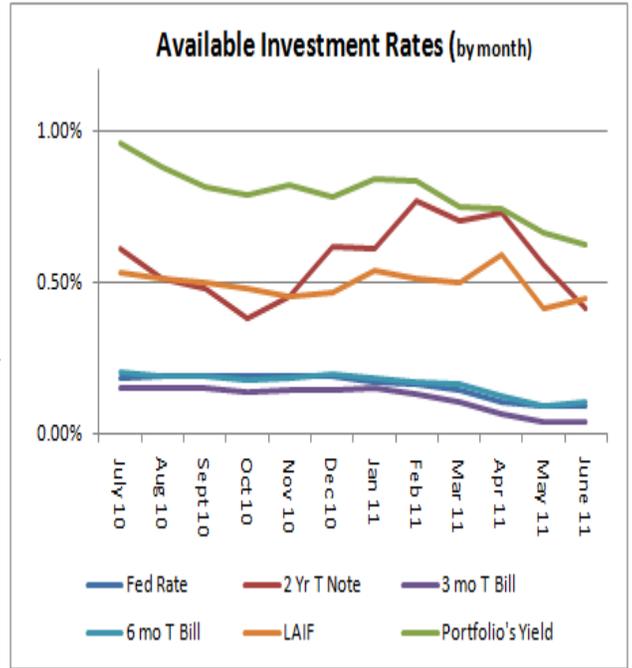
Available Investment Rates



Available investment rates are determined by national economic conditions.

FY 2011 rates available for investment remained very low, as the economy remained in an economic downturn.

The chart highlights the low rates available in short and medium term maturities in FY 2011. Rates under one year have remained extremely low. LAIF rates also followed the trend of other rates with spikes in between.



Portfolio Yield

For FY 2011, the portfolio earned an average yield of 0.79%.



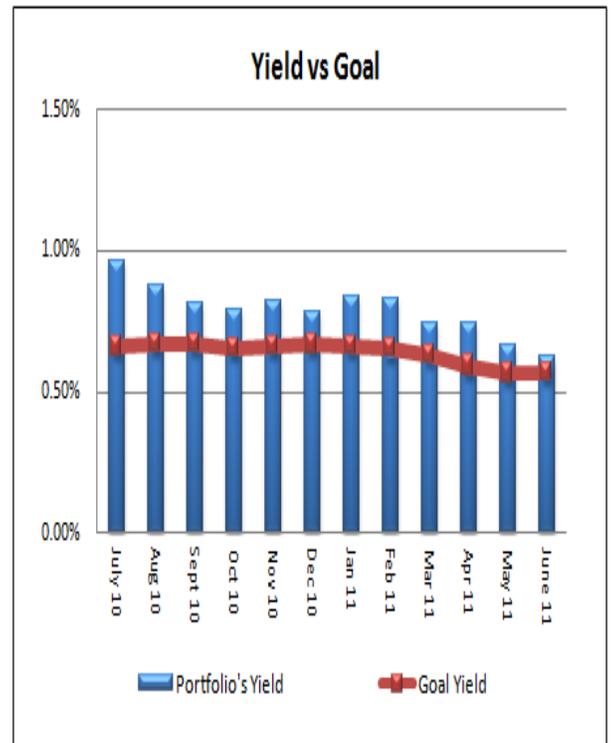
Yield is the percentage of annual return on investment.

In FY 2011, rates available for investment were very low. As rates available for investment declined, so did the overall investment portfolio yield. The average annual yield declined approximately 31% (3100 basis points).

Our portfolio yield declined because we shifted LAIF money into the non-yielding cash account towards the second half of the year. Moreover, we had securities that matured or were called but made fewer purchases or investments.

It should be emphasized that the Statement of Investment Policy states that the portfolio is to be managed with an emphasis first on safety, then liquidity, and finally on yield.

The chart nonetheless shows that the FY 2011 portfolio yield is still higher than the goal yield.

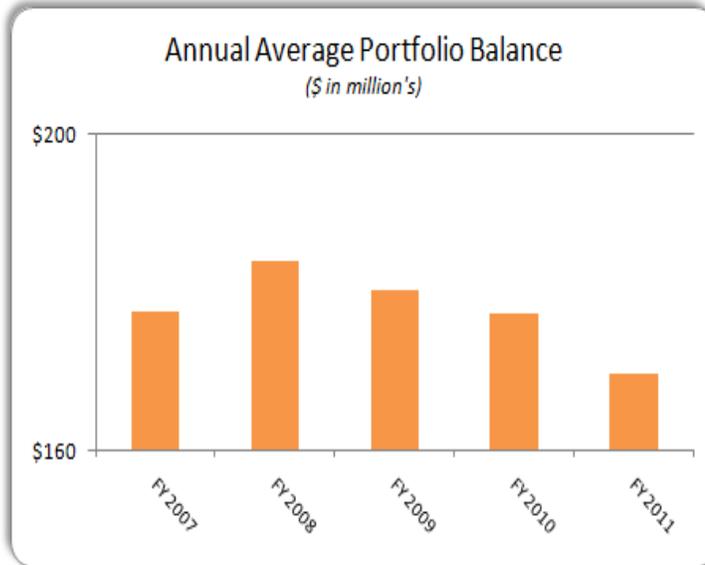


Cash and Interest Earnings

Cash Available for Investment

For FY 2011, the average monthly portfolio cash balance totaled **\$170 million**, approximately 4% (\$7.5 million) less than the previous year. The highest portfolio balance was \$181,683,307 for the month of June 2011, and the lowest was \$152,690,395 for the month November 2010.

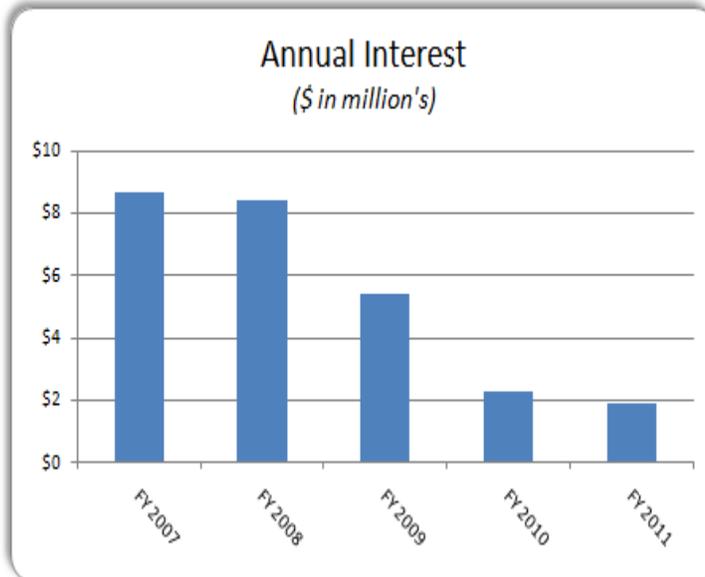
The chart shows the City's cash available for investment over the past five years.



Over the past five years, cash available for investment has averaged \$178 million, while annual interest has averaged \$5.3 million.

Interest Earnings

For FY 2011, unaudited interest income totaled **\$1.514 million**, an approximately 33% (\$735 thousand) decline from the previous year. To reiterate the decline in interest earnings was due to low interest rates available for investment, due to the severe economic recession, and the reduced portfolio balance where there were less interest bearing investments towards the later part of the year. The chart shows the change in annual interest income over the past five years.



Monthly Maturity Comparison

Same day investments averaged 68% in FY 2011

LAIF offers the City overnight liquidity at rates that are equivalent to other short-term investment types, with the added benefit of daily withdrawal being available. We had three LAIF accounts during July to early February until we moved some LAIF investment into the General Checking account. Thus average LAIF investment declined by 4% (\$1,170,000) versus last year.

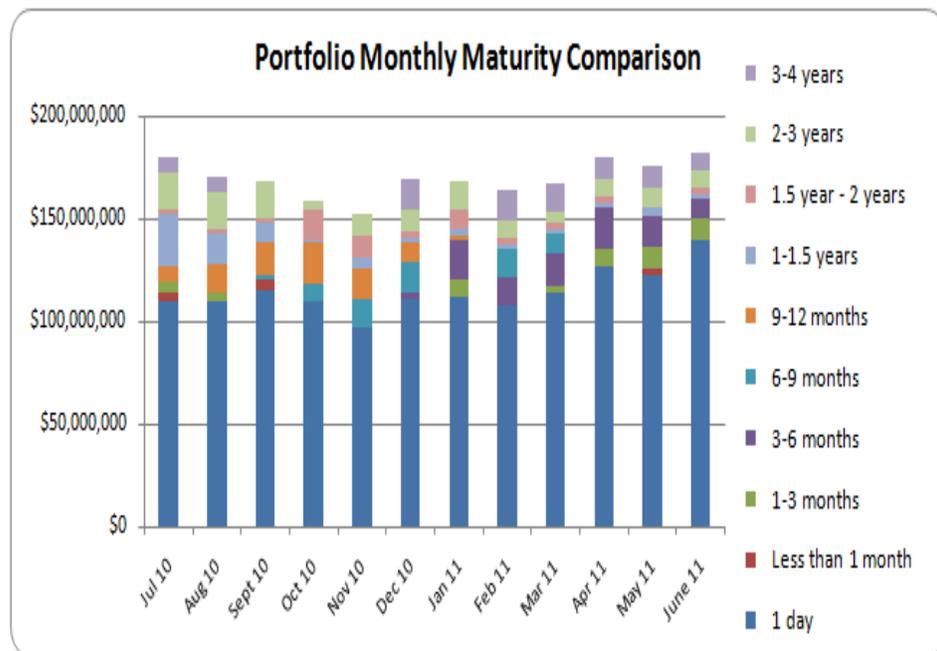
But since money from LAIF and the other maturities of securities were moved to the General Checking account, which is also a same day investment, the average same day maturity still rose from 67% last year to 68% in FY2011.

To learn more about LAIF, visit <http://www.treasurer.ca.gov/pmia-laif>.

The following chart represents the portfolio's monthly maturity brackets. As can be seen in the chart, a large percentage of investments were in the 1 day liquidity range. Investment in LAIF and General Checking Account represent the 1 day maturity period, and is indicated by the dark blue bar.



Securities are purchased in various maturity ranges in order to ensure liquidity.

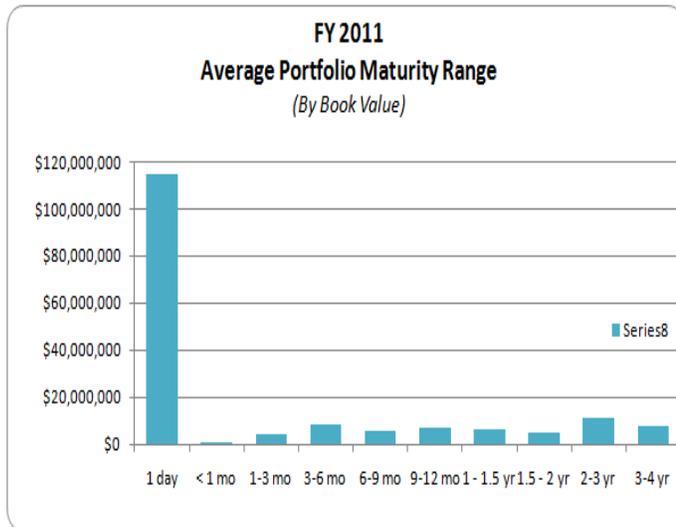


Average Liquidity

As rates declined, majority of investments are still into LAIF.

The chart shows the average maturity periods for FY 2011. As can be seen in the chart, a large portion of the portfolio's one day maturity was invested into LAIF; mainly due to the declining rates of other short-term investments such that called and matured investments were not reinvested back. In the future, when rates improve, the portfolio will be laddered between a larger number of maturity ranges.

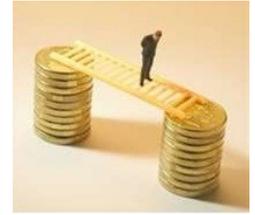
Until February 2011, the City of Hayward had three such accounts. This supported use of the LAIF as a valuable short-term investment option, and that it may be used up to the maximum permitted by California State Law. But with the State's activities regarding redevelopment agencies, we moved some money and maintained only two LAIF accounts starting February, 2011.



Fair Market Value—Mark to Market

The City is required to report the portfolio's fair market value each June 30th. This information is reported in the Annual Comprehensive Annual Financial Report (CAFR). For FY 2011, the unaudited fair market value shows a positive gain of **\$295,903**.

The value at maturity of all securities in the portfolio is not affected by this calculation. What is demonstrated is the movement in bond prices associated with changes in bond market yields. Since bond yields and bond prices move in opposite directions, any overall decrease in market value interest rates serve to increase the price of existing holdings.



To ensure adequate cash is available, the City monitors its cash position daily, satisfying its obligations and investing the remaining cash.

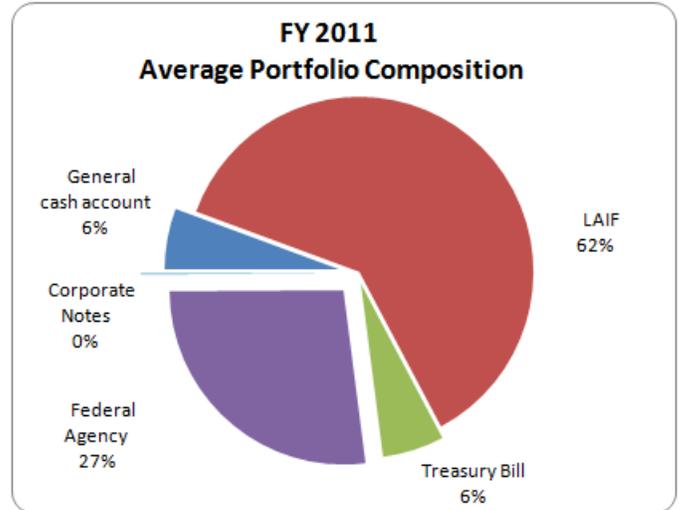


Market value is the current price at which investors are willing to buy or sell a bond at a given time.

Portfolio Make-Up

We practice diversification.

This chart shows the average composition of a monthly FY 2011 portfolio. As can be seen from the graph, the portfolio is diversified among several security types, with LAIF being a diversified investment, in that LAIF is composed of various security types. Next major security type is federal agency securities. This diversification helps us dilute risks, especially during the times in FY2011 when rates were low. The last month we invested in Corporate notes was in July 2010.



Portfolio composition describes the



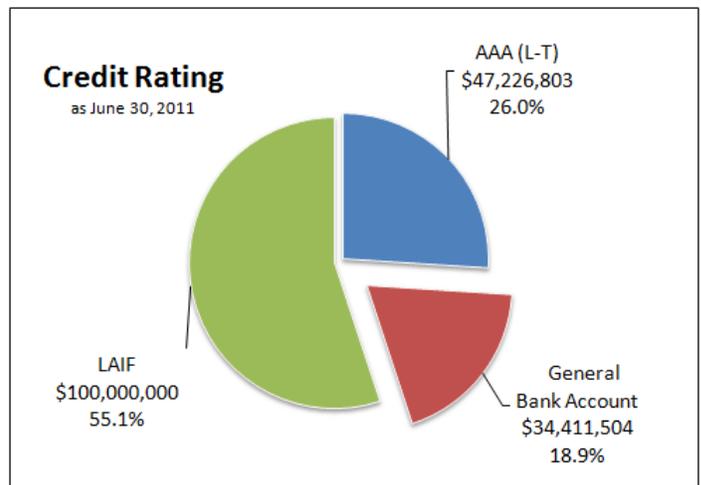
A credit rating assesses the credit worthiness of a corporation. Credit ratings are calculated from financial history and current assets and liabilities. Typically, a credit rating tells an investor the probability of the subject being able to pay back a bond.

Credit Worthiness

Security credit ratings are monitored monthly.

The graph presents the portfolio investments' by credit ratings as of June 30, 2011. AAA and AA are long-term ratings (maturity of greater than one year). LAIF has not been issued a credit rating by a national rating agency and is listed separately.

The City's Investment Policy requires a minimum rating "A" for a medium term note with a maturity of 2-3 years. We don't have any investment lower than AAA as of June 30, 2011.



Oversight

The Investment Advisory Committee has met with Finance staff every quarter.

The purpose of Investment Advisory Committee meetings is to review investment strategy, approve new investment sources, discuss economic developments, monitor investment activity and consider proposed changes to investment practices and to the Statement of Investment Policy.

The result has been a focus on safe investing, improved investment standards, and improved investment quality. The Committee has provided an invaluable sounding board for staff concerns about the economy, the direction of interest rates, downgrading of well-rated issuers of securities, and a variety of other subjects related to the treasury operation.

Information is provided to the Committee monthly by the Finance Department. The Finance Director (Director Vesely) chairs the quarterly meetings, which include a briefing from the Investment Officer on the status of

the investment portfolio.

The Committee consists of the Assistant City Manager (ACM Morariu); the City Attorney (represented by Assistant City Attorney Conneely); two department heads appointed by the City Manager (represented by Maintenance Services Director McGrath and Fire Chief Bueno); vacancies are for members from the Finance Academic community and from the banking community.



The Investment Program is reviewed quarterly by the Investment Advisory Committee.

Accounting Requirements

Investment procedures and results are reviewed by independent auditors.

The City's Comprehensive Annual Financial Report (CAFR) provides an annual disclosure of investment credit and concentration risk. The disclosure is a snapshot of the City's investments (both City and Trustee held) as of June 30.

The purpose of the disclosure is to inform financial statement users about investment risks that could affect the City's investments, and thus, affect the City's ability to provide services and meet its obligations. The FY 2011 CAFR will be available in December 2011 and will contain the FY 2011 disclosure.



Independent auditors review the Investment

Recommended Policy Changes



Actual results are measured against the policy to ensure compliance.

The City’s Statement of Investment Policy (Policy) is required to be reviewed annually by the Investment Advisory Committee and, thereafter be reviewed and approved by the City Council at a public meeting.

The purpose of this Investment Policy is to establish cash management and investment guidelines for the Finance Director, who is responsible for the stewardship of the City of Hayward’s Investment Program. Each transaction and the entire portfolio must comply with the California Government (Code) Sections 53600 and 53635 et seq. and the City’s Policy. This Policy conforms to customary standards of prudent investment management. Should the provisions of the Code change from those contained herein; such provisions will be considered incorporated in this Policy.

As part of the annual review, the following are the policy change recommendations:

1. The policy contains one substantive change since last adopted by City Council: updated language to Section IV (Delegation of Authority) to allow the Finance Director, upon authorization by the City Council, to engage an external investment management firm to assist with the City’s portfolio investments.
2. The Committee recommends to City Council the authority for the Finance Director to create a Local Agency Investment Fund (LAIF) account for the Hayward Public Financing Authority.

These recommendations shall form part of the Change of Statement of Investment Policy, Annual Delegation of Authority, and Annual Report to the City Council.

Future Investment Strategy



Prudent and selective investment remains the key strategy for the ensuing fiscal year.

In managing the City investments, the City’s primary objectives remain to be safety, liquidity and yield. The investment strategy going into FY 2011 remains to selectively extend maturities to take advantage of interest rates and to evaluate investment in LAIF. The City continues to invest in highly rated government securities which are not backed by mortgages and staff . The financial market has yet to be reviewed thoroughly before beginning to invest into corporate notes.

Attachments



1. FY 2011 Purchase Report
2. FY 2011 Maturity Report
3. FY 2011 Sale/Call Report

Prepared by:
Budget Officer
Alita Reinecker

Reviewed by:
Finance Director
Tracy Vesely



CITY OF
HAYWARD
HEART OF THE BAY

**City of Hayward
Purchases Report
Sorted by Fund - Fund
July 1, 2010 - June 30, 2011**

CUSIP	Investment #	Fund	Sec. Type	Issuer	Original Par Value	Purchase Date	Payment Periods	Principal Purchased	Accrued Interest at Purchase	Rate at Purchase	Maturity Date	YTM 365	Ending Book Value
Pool Account													
SYSGeneral Cash	General Cash	950	PA3	BOW2	410,173.96	07/01/2010	07/01 - Monthly	410,173.96					34,411,504.41
912795W23	503	950	TRD	USTR	5,000,000.00	07/08/2010	10/07 - At Maturity	4,998,040.97			10/07/2010	0.157	0.00
31331JV67	504	950	MC1	FFCB	3,000,000.00	10/25/2010	04/25 - 10/25	3,000,000.00		0.840	10/25/2013	0.840	3,000,000.00
31331JV75	505	950	MC1	FFCB	5,000,000.00	10/27/2010	04/27 - 10/27	5,000,000.00		1.250	10/27/2014	1.250	5,000,000.00
31331JZ48	506	950	MC1	FFCB	3,000,000.00	11/08/2010	05/04 - 08/17	3,000,000.00	410.00	1.230	11/04/2014	1.230	3,000,000.00
313371E28	507	950	MC1	FHLB	3,000,000.00	11/08/2010	04/25 - 08/16	3,000,000.00	1,137.50	1.050	04/25/2014	1.050	3,000,000.00
313371ZP4	508	950	MC1	FHLB	3,000,000.00	12/23/2010	06/23 - Final Pmt.	3,000,000.00		1.550	06/23/2014	1.550	0.00
Subtotal					22,410,173.96			22,408,214.93	1,547.50				48,411,504.41
Total Purchases					22,410,173.96			22,408,214.93	1,547.50				48,411,504.41

**City of Hayward
Maturity Report
Sorted by Maturity Date
Received or due during July 1, 2010 - June 30, 2011**

CUSIP	Investment #	Fund	Sec. Type	Issuer	Par Value	Maturity Date	Purchase Date	Rate at Maturity	Book Value at Maturity	Interest	Maturity Proceeds	Net Income
949746MZ1	436	950	MC3	WFC	2,000,000.00	08/09/2010	01/22/2008	4.625	2,042,100.00	46,250.00	2,046,250.00	4,150.00
31331TBZ3	438	950	FAC	FFCB	2,000,000.00	08/27/2010	02/08/2008	4.450	2,079,220.00	44,500.00	2,044,500.00	-34,720.00
912795W23	503	950	TRD	USTR	5,000,000.00	10/07/2010	07/08/2010		4,998,040.97	1,959.03	5,000,000.00	1,959.03
31331G6F1	497	950	FAC	FFCB	3,000,000.00	06/09/2011	04/22/2010	0.570	3,000,660.00	8,550.00	3,008,550.00	7,890.00
Total Maturities					12,000,000.00				12,120,020.97	101,259.03	12,099,300.00	-20,720.97

**City of Hayward
Sales/Call Report
Sorted by Investment Number - Fund
July 1, 2010 - June 30, 2011**

CUSIP	Investment #	Fund	Issuer Sec. Type	Purchase Date	Redem. Date	Par Value	Rate at Redem.	Book Value at Redem.	Redemption Principal	Redemption Interest	Total Amount	Net Income
489												
31331GP45	489	950	FFCB MC1	09/10/2009	09/10/2010 09/10/2012	3,000,000.00	2.000	3,000,000.00	3,000,000.00	30,000.00	3,030,000.00 Call	30,000.00
					Subtotal	3,000,000.00		3,000,000.00	3,000,000.00	30,000.00	3,030,000.00	30,000.00
491												
3133XUYD9	491	950	FHLB MC1	10/05/2009	10/05/2010 10/05/2012	3,000,000.00	2.000	3,000,000.00	3,000,000.00	30,000.00	3,030,000.00 Call	30,000.00
					Subtotal	3,000,000.00		3,000,000.00	3,000,000.00	30,000.00	3,030,000.00	30,000.00
492												
31331GX53	492	950	FFCB MC1	10/15/2009	10/15/2010 10/15/2012	2,000,000.00	2.000	2,000,000.00	2,000,000.00	20,000.00	2,020,000.00 Call	20,000.00
					Subtotal	2,000,000.00		2,000,000.00	2,000,000.00	20,000.00	2,020,000.00	20,000.00
493												
3133XVCB5	493	950	FHLB MC1	10/15/2009	10/15/2010 10/15/2012	2,000,000.00	1.900	2,000,000.00	2,000,000.00	19,000.00	2,019,000.00 Call	19,000.00
					Subtotal	2,000,000.00		2,000,000.00	2,000,000.00	19,000.00	2,019,000.00	19,000.00
495												
31331JB1	495	950	FFCB MC1	01/14/2010	01/14/2011 01/14/2013	2,000,000.00	2.000	2,000,000.00	2,000,000.00	20,000.00	2,020,000.00 Call	20,000.00
					Subtotal	2,000,000.00		2,000,000.00	2,000,000.00	20,000.00	2,020,000.00	20,000.00
496												
3133XX7H4	496	950	FHLB MC1	03/10/2010	03/03/2011 09/03/2013	3,000,000.00	2.100	3,000,000.00	3,000,000.00	31,500.00	3,031,500.00 Call	31,500.00
					Subtotal	3,000,000.00		3,000,000.00	3,000,000.00	31,500.00	3,031,500.00	31,500.00
499												
3133XXDR5	499	950	FHLB FAC	04/22/2010	08/31/2010 09/02/2011	5,000,000.00	0.700	5,000,000.00	5,016,500.00	17,402.78	5,033,902.78 Sale	33,902.78
					Subtotal	5,000,000.00		5,000,000.00	5,016,500.00	17,402.78	5,033,902.78	33,902.78
502												
31331JPP2	502	950	FFCB MC1	06/23/2010	09/02/2010 12/02/2013	5,000,000.00	2.000	5,000,000.00	5,000,000.00	25,000.00	5,025,000.00 Call	25,000.00
					Subtotal	5,000,000.00		5,000,000.00	5,000,000.00	25,000.00	5,025,000.00	25,000.00

**City of Hayward
Sales/Call Report
July 1, 2010 - June 30, 2011**

ATTACHMENT II

CUSIP	Investment #	Fund	Issuer Sec. Type	Purchase Date	Redem. Date Matur. Date	Par Value	Rate at Redem.	Book Value at Redem.	Redemption Principal	Redemption Interest	Total Amount	Net Income
508												
313371ZP4	508	950	FHLB MC1	12/23/2010	06/23/2011 06/23/2014	3,000,000.00	1.550	3,000,000.00	3,000,000.00	23,250.00	3,023,250.00	23,250.00
											Sale	
					Subtotal	3,000,000.00		3,000,000.00	3,000,000.00	23,250.00	3,023,250.00	23,250.00
				Total Sales		28,000,000.00		28,000,000.00	28,016,500.00	216,152.78	28,232,652.78	232,652.78



FY 2012 Statement of Investment Policy

Finance Department
Director of Finance, Tracy Vesely
Policy Recommended Changes: October 11, 2011

Policy last amended: September 14, 2010

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I. Introduction

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities. Activities that comprise good cash management include accurate cash projections, the expeditious collection of revenue, the control of disbursements, cost-effective banking relations, and arranging for a short-term borrowing program that coordinates working capital requirements and investment opportunities.

- A. **Included** – Funds included in this policy are described in the City’s annual financial report, and include: General Fund, Special Revenue Funds, Capital Projects Funds, Enterprise Funds, Internal Service Funds, Fiduciary Funds, Redevelopment Agency Funds, and Housing Finance Agency Funds. The investment policy applies to all transactions involving the financial assets and related activity of the foregoing funds.
- B. **Excluded** – The following funds are excluded from the policy: Deferred Compensation Fund assets and investments, whereas investments of these monies are directed by each employee in accordance with the rules of the Deferred Compensation Plan of the City; and employer and employee deposits into both the PARS and PERS Fund.
- C. **Other excluded funds** - Monies held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of the City, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements may be invested in accordance with the ordinance, resolution, indenture or agreement approved by the City Council which govern the issuance of those bonds, or lease installment sale, or other agreement, rather than this Statement of Investment Policy.

II. Policy

It is the policy of the City of Hayward to invest public funds not required for immediate day-to-day operations in safe, liquid and medium term investments. These investments shall yield an acceptable return while conforming to all California statutes. Investments are intended to achieve a reasonable rate of return on public funds while minimizing the potential for capital losses arising from market changes or issuer default.

Although the generating revenues through interest earnings on investments is an appropriate City goal, the primary consideration in the investment of City funds is capital preservation in the overall portfolio. As such, the City's yield objective is to achieve a reasonable rate of return on City investments rather than the maximum generation of income, which could expose the City to unacceptable levels of risk.

In managing the City of Hayward's Investment Portfolio, the City's primary objectives are safety, liquidity and yield.

1. **Safety** of principal is the foremost objective of the City, followed by liquidity and yield. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from securities defaults or erosion of market value.
2. **Liquidity** - The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated. This need for investment liquidity may be tempered to the extent that the City is able to issue short-term notes to meet its operating requirements.
3. **Yield** - The investment portfolio shall be managed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow requirements, and state and local law, ordinances or resolutions that restrict the placement of short-term funds. Investment decisions should not incur unreasonable investment risks in order to obtain current investment income.
4. **Goal Yield** - The investment portfolio shall be managed with the objective of regularly exceeding by 50 basis points, the average of three-month and six-month U.S. Treasury Bill rates for the equivalent period. These indices are considered benchmarks for risk-less investment transactions and therefore comprise a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles.
5. **Diversification** - The City's investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks associated with concentrating investments in specific security types or in individual financial institutions.

While the City will not make investments for the purpose of trading or speculation as the dominant criterion, the Finance Director shall seek to enhance total portfolio return by means of active portfolio management. The prohibition of speculative investments precludes pursuit of gain or profit through unusual risk and precludes investments primarily directed at gains or profits from conjectural fluctuations in market prices. However, as long as the original investments can be justified by their ordinary earning power, trading in response to changes in market value or market direction is a requirement of active portfolio management.

III. Use of State Investment Guidelines

Government Code Sections 16481.2, 53601, 53607, 53635, and 53646 of the State of California regulate the investment practices. It is the policy of the City of Hayward to use the State's provisions for local government investments as the base for developing and implementing the City's investment policies and practices.

IV. Delegation of Authority

In accordance with Section 53607 of the California Government Code, the responsibility for conducting the City's investment program is delegated to the Finance Director, who has established written procedures for the operation of the investment program, consistent with this investment policy, which also governs delegation of authority for all investment activities. The authority to invest City Funds rests with the Finance Director and his/her designated staff. The Finance Director has further authority, with consent of the City Council, to engage the services of one or more external investment managers to assist in the management of the City's investment portfolio in a manner consistent with the City's Investment Policy. Such managers must be registered under the Investment Advisors Act of 1940.

V. Investment Advisory Committee

The City Manager will appoint an Investment Advisory Committee (IAC) for the purpose of overseeing the implementation of the City's investment program and assuring it is consistent with the investment policy as approved by the Council. The IAC shall consist of the Assistant City Manager, Finance Director, City Attorney, a representative of California State University, East Bay, a member of the financial community, and two department heads chosen by the City Manager.

The IAC shall meet at least quarterly to determine general strategies and to monitor results. The committee shall include in its deliberations such topics as: economic outlook, portfolio diversification and maturity structure, potential risks to the City's funds, approval of authorized financial institutions, and the goal rate of return on the investment portfolio. Written investment procedures must be approved by the IAC.

VI. Investment Policy Adoption

The City's investment policy shall be formally reviewed and approved by the Investment Advisory Committee, not more than 120 days after the beginning of each fiscal year; and, thereafter shall be reviewed and approved by the City Council at a public meeting.

As required under Government Code Sections 16481.2 and 53646, the Council will review the Statement of Investment Policy annually.

VII. Reporting

The following investment activity reports will be completed.

A. Quarterly

Within 30 days of the end of each quarter, the Finance Director shall submit a quarterly investment report to the City Manager, City Council, and Investment Advisory Committee, as required by California Government Code 53607.

The text of report shall highlight key aspects of information contained in the investment report schedules, and inform readers of economic conditions affecting the portfolio. The report will present recent investment performance and future investment strategy;

disclose any perceived threats to portfolio quality, security or liquidity; compare the average portfolio investment yield with the portfolio goal yield.

Graphs, charts or schedules of the report shall itemize investment purchases, sales and maturities and indicate their effect on portfolio value. The report will itemize all investments and deposits in the portfolio by investment or deposit category, providing essential identifying characteristics for each investment or deposit; indicate the percentage of the portfolio represented by each investment and by each investment category; show all par values, market values and costs at time of purchase, together with each item's coupon or discount rate. The report will show the average earning rate for the portfolio, indicate distribution of the portfolio by category; and provide other relevant detail to accomplish disclosure of investment activity and portfolio status.

B. Monthly

Within 30 days of the end of each month, the Finance Director shall submit an investment summary to the City Council Budget & Finance Committee, City Manager, and Investment Advisory Committee. For those months where a quarterly investment report is published, the quarterly investment report will serve as both the monthly investment summary and the quarterly investment report.

The investment summary will report key aspects of the investment portfolio, to include information about the type of each investment instrument, issuer, par and dollar amount, purchases, sales, gains and losses, maturity dates, credit ratings, and the percentage of the portfolio by each type of investment.

C. Annual

Within 90 days of the fiscal year end, the Finance Director shall present a comprehensive annual report on the investment program and investment activity. This report shall be presented to the Investment Advisory Committee. The annual report shall include twelve-month comparisons of return, shall suggest policies and improvements that might enhance the investment program, and include an investment plan for the ensuing fiscal year. In conjunction with its review of the annual investment report, the Investment Advisory Committee shall review and reaffirm the Statement of Investment Policy of the City, whether or not specific policy modifications are suggested as part of the annual report.

Following the annual review of the Statement of Investment Policy by the Investment Advisory Committee, the Investment Policy shall be submitted to the City Council together with any changes recommended by the Investment Advisory Committee. The City Council shall consider any such recommended changes and annually reaffirm the Statement of Investment Policy at a public meeting of the City Council.

D. Other Reporting

The City shall comply with such requirements which may be enacted by amendment to the government code relating to investment practices which provide for transmitting to state agencies copies of annual reports and the Statement of Investment Policy.

VIII. Investment Instruments

A summary and description of authorized investment instruments is below.

INVESTMENT INSTRUMENT SUMMARY				
Security Type	Maximum Maturity	Min Credit Quality	Authorized Investment Limit	Per Issuer Limit
A. US Treasury Notes/Bills	4 Years	None	100%	100%
B. US Agencies – Fully Backed	4 Years	None	100%	100%
B. US Agencies – Sponsored	4 Years	None	50%	20%
C. Banker's Acceptance (BA)	180 days	A-1/P-1	40%	30%
D. Commercial Paper	270 days	A-1/P-1	15%	10%
E. Negotiable Certificates of Deposit	4 Years	A to AA	30%	20%
F. Repurchase Agreements	1 Year	None	25%	20%
F. Reverse Repurchase Agreement	92 Days	None	20%	20%
G. Medium Term Notes (MTN)	2-4 Years	A to AA	30%	20%
H. Mutual Funds	Limited to bond proceeds only.			
I. Money Market Fund	2 Years	AAA	20%	10%
J. Asset-backed Corporate Notes	4 Years	AA	20%	20%
K. County Treasurer Pool	None	None	15%	20%
L. LAIF (1)	None	None	\$150 M	N/A
M. Certificates of Deposit	4 Years	None	25%	20%

The following sections describe individual investment types. The sections specify a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. A later increase or decrease in a percentage resulting from a change in values or assets shall not constitute a violation of that restriction. If subsequent to purchase, securities are downgraded below the minimum acceptable rating level, the securities shall be reviewed for possible sale within a reasonable amount of time after the downgrade (GC 53601.7 d).

Note (1): This Policy was amended in October 2010 to increase the authorized investment limit for LAIF from \$120 million to \$150 million, to agree with the increase in the maximum LAIF account balances set by the State (LAIF Board).

A. United States Treasury Notes, Bonds, Bills, or Certificates of Indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

Description: Treasury securities are government bonds issued by the United States Department of the Treasury through the Bureau of the Public Debt. They are the debt financing instruments of the U.S. Federal government, and are often referred to simply as Treasuries. There are four types of treasury securities: Treasury bills, Treasury notes, Treasury bonds, and Savings bonds. All of the Treasury securities (besides savings bonds) are very liquid and are heavily traded on the secondary market.

U.S. Treasury Securities	City Of Hayward	CA Govt Code 53601 (b)
Maximum Maturity	4 years	5 years
Credit Rating Limit	None	None
Authorized Investment Limit	100%	None
Per Issuer Limit	100%	None
Other Requirement	None	

B. Federal Agency or United States Government-Sponsored Enterprise (GSE) 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.

Description: The term "agency issues" is used to describe debt issues by Federal agencies in the United States. These special federal agencies are often created to channel credit to specific sectors of the economy (Freddie Mac for housing development for example). Although the federal government does not explicitly insure this debt, it is assumed that the government will step forth if the agency nears default.

The government-sponsored enterprises (GSEs) are a group of financial services corporations created by the United States Congress. Their function is to reduce interest rates for specific borrowing sectors of the economy, farmers, and homeowners. The mortgage-borrowing segment is by far the largest of the borrowing segments that the GSEs operate in.

i. U.S. Agencies (fully backed)	City Of Hayward	CA Govt Code 53601 (e)
Maximum Maturity	4 years	5 years
Credit Rating Limit	None	None
Authorized Investment Limit	100%	None
Per Issuer Limit	100%	None
Other Requirement	None	
ii. U.S. Agencies (Government)	City Of Hayward	CA Govt Code 53601 (e)

Sponsored Enterprise (GSE)		
Maximum Maturity	4 years	5 years
Credit Rating Limit	None	None
Authorized Investment Limit	50%	None
Per Issuer Limit	20%	None
Other Requirement	None	

C. Prime Banker’s Acceptances (BA) otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank.

Description - A short-term credit investment created by a non-financial firm and guaranteed by a bank. Acceptances are traded at a discount from face value on the secondary market. Banker's acceptances are very similar to T-bills and are often used in money market funds.

Banker’s Acceptances	City Of Hayward	CA Govt Code 53601 (f), 53601.7
Maximum Maturity	Less than 180 days	Less than 180 days
Credit Rating Limit	A-1/P-1/F-1	A-1/P-1/F-1
Authorized Investment Limit	40%	40%
Per Issuer Limit	30%	30%
Other Requirement	<ul style="list-style-type: none"> • BAs which are eligible for purchase by the Federal Reserve System. • BAs that are issued by the top 50 banks in the world or any qualified depository in the State of California with a 4.5 percent equity to asset ratio. 	

D. Commercial Paper (CP) of "prime" quality.

Description - An unsecured promissory note with a fixed maturity. Short-term corporate IOUs, are generally due in less than a year and sold at a discount from face value.

Commercial Paper	City Of Hayward	CA Govt Code 53601 (g) 53635
Maximum Maturity	270 days or less	270 days or less
Credit Rating Limit	Highest letter and numerical rating as provided for by Moody's or Standard and Poor's rating services. (A-1/P-1/F-1)	A-1/P-1/F-1
Authorized Investment Limit	15%	25%
Per Issuer Limit	10%	10%
Other City Requirement	<p>The entity that issues CP shall meet all of the following conditions in either paragraph 1 or 2.</p> <ol style="list-style-type: none"> 1. The entity meets the following criteria: <ul style="list-style-type: none"> o Is organized and operating in the United States as a general corporation. o Has total assets in excess of five hundred million dollars (\$500,000,000). o Has debt other than commercial paper, if any, that is rated "A" or higher by a nationally recognized statistical-rating organization (NRSRO). 2. The entity meets the following criteria: <ul style="list-style-type: none"> o Is organized within the United States as a special purpose corporation, trust, or limited liability company. o Has program-wide credit enhancements including, but not limited to, over-collateralization, letters of credit, or surety bond. o Has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical-rating organization (NRSRO). 	

E. Negotiable Certificates of Deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a state-licensed branch of a foreign bank.

Description - A CD with a very large denomination, usually \$1 million or more. These are usually bought by institutional investors who are interested in low-risk investments. Negotiable certificates of deposit are usually in bearer form, and have secondary markets that are highly liquid.

Negotiable CD	City Of Hayward				CA Govt Code 53601 (h)
Maximum Maturity	6 mo to 1 year	1 -2 Years	2-3 Years	3-4 Years	5 Years
Credit Rating Limit	Min A-2/ P-2 rating	Min A rating	Min A+ rating	Min AA rating	Rated at least A-1/P-1/F-1 for short term, and A for long-term
Authorized Investment Limit	30%				30%
Per Issuer Limit	20%				None
Other Requirement	None				

F. Repurchase Agreements or Reverse Repurchase Agreements

Description - purchase of portfolio securities by an investor with a simultaneous agreement to resell the securities back to the seller on a specific future date, at the original purchase price, plus a negotiated interest payment. This transaction should be secured or made safe with collateralization.

Repurchase agreement means a purchase of securities by the local agency pursuant to an agreement by which the counterparty seller will repurchase the securities on or before a specified date and for a specified amount and the counterparty will deliver the underlying securities to the local agency by book entry, physical delivery, or by third-party custodial agreement. The transfer of underlying securities to the counterparty bank's customer book-entry account may be used for book-entry delivery.

Repurchase Agreement	City Of Hayward	CA Govt Code 53601 (i)
Maximum Maturity	1 Year	1 Year
Credit Rating Limit	Depends on underlying asset.	Rated at least A-1/P-1/F-1 for short term, and A for long-term
Authorized Investment Limit	20%	20%
Per Issuer Limit	20%	None
Other Requirement	<ul style="list-style-type: none"> • Securities purchased under the repurchase agreement shall be limited to the securities and qualifications listed in this policy, under Section VIII, Investment Instruments. • Investments in repurchase agreements may be made, on any investment authorized in this section, when the term of the agreement does not exceed one year. • Securities shall be marked-to-market daily, and shall be maintained at a value equal to or greater than the cash investment. • The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. • At the time of purchase the market value of the securities shall be in excess of the cash investment. • A third-party custodian or safekeeping agent shall hold all securities purchased under a repurchase agreement. Transfer of underlying securities to a counterparty bank's customer book entry account may be used for book entry delivery, and a counterparty bank's trust department or safekeeping department may also be used for physical delivery of the underlying security. • The seller of repurchase securities shall not be entitled to substitute securities, except as authorized by the City. New or substitute securities should be reasonably identical to the original securities in terms of maturity, yield, quality, and liquidity. • "Retail" repurchase agreements shall not be authorized for purchase. • As soon as possible a master repurchase agreement shall be executed between the City and all trading partners. 	

Reverse repurchase agreement means a sale of securities by the local agency pursuant to an agreement by which the local agency will repurchase the securities on or before a specified date and includes other comparable agreements.

Reverse Repurchase Agreement	City Of Hayward	CA Govt Code 53601 (i)
Maximum Maturity	92 days	1 year
Credit Rating Limit	Rated at least A-1/P-1/F-1 for short term, and A for long-term. See limits for individual investment securities.	Rated at least A-1/P-1/F-1 for short term, and A for long-term
Authorized Investment Limit	20%	20%
Per Issuer Limit	20%	None
Other Requirement	<ul style="list-style-type: none"> • The security to be sold on reverse repurchase agreement or securities lending agreement has been owned and fully paid for by the local agency for a minimum of 30 days prior to sale. • The total of all reverse repurchase agreements and securities lending agreements on investments owned by the local agency does not exceed 20 percent of the base value of the portfolio. • The agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security. • Funds obtained or funds within the pool of an equivalent amount to that obtained from selling a security to a counterparty by way of a reverse repurchase agreement or securities lending agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement or securities lending agreement, unless the reverse repurchase agreement or securities lending agreement includes • A written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security. • Investments in reverse repurchase agreements, securities lending agreements, or similar investments in which the local agency sells securities prior to purchase with a simultaneous agreement to repurchase the security may only be made upon prior approval of the governing body of the local agency and shall only be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with a local agency. 	

G. Medium-Term Notes (MTN)

Description - Corporate promissory notes of 9-month to 15-year duration sold through dealers on a continuously offered basis. Like certificates of deposit, MTNs can be either collateralized or unsecured. Issuers include banks and savings and loans, insurance companies and corporations.

Medium Term Corporate	City Of Hayward			CA Govt Code 53601 (j)
Maximum Maturity	1 day to two years	Two to three years	Three to four years	5 Years
Credit Rating Limit	Minimum A rating	Minimum A+ rating	Minimum AA rating	A
Authorized Investment Limit	30%			30%
Per Issuer Limit	20%			N/A
Other Requirement	<ul style="list-style-type: none"> Securities must be issued by corporations 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. 			

H. Mutual Funds

Description - A mutual fund is simply a financial intermediary that allows a group of investors to pool their money together with a predetermined investment objective. The mutual fund will have a fund manager who is responsible for investing the pooled money into specific securities (usually stocks or bonds). When you invest in a mutual fund, you are buying shares (or portions) of the mutual fund and become a shareholder of the fund.

Mutual Funds	City of Hayward	CA Govt Code 53601 (k), 53601.7
Maximum Maturity	180 days or less	None
Credit Rating Limit	The funds must be rated in the highest category of Moody's or Standard and Poor's, or must be administered by a domestic bank with long-term debt rated in one of the top two categories of Moody's or Standard and Poor's.	Rated at least A-1/P-1/F-1 for short term, and A for long-term
Authorized Investment Limit	20%	20%
Per Issuer Limit	10%	10%
Other Requirement	<ul style="list-style-type: none"> Eligible for purchase, provided that use of mutual funds shall be limited to bond proceeds for which the City Treasurer finds a mutual fund's accounting methods particularly suited to the accounting requirements of the bond issue and helpful with arbitrage calculations. 	

I. Money Market Funds

Description: Money market securities are essentially IOUs issued by governments, financial institutions and large corporations. These instruments are very liquid and considered extraordinarily safe. Because they are extremely conservative, money market securities offer significantly lower returns than most other securities.

Money Market Funds	City of Hayward	CA Govt Code 53601 (k)
Maximum Maturity	2 Years	None
Credit Rating Limit	AAA by two NRSROs.	Highest ranking by two NRSROs.
Authorized Investment Limit	20%	20%
Per Issuer Limit	10%	N/A
Other Requirement	<ul style="list-style-type: none"> • Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations (NRSRO) or retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than ten years' experience managing money market mutual funds with assets under management in excess of one billion dollars (\$1,000,000,000). • The purchase price of shares of beneficial interest purchased shall not include any commission that the companies may charge. • The City shall invest only in Money Market Funds that have a policy of maintaining a constant daily net asset value per share of \$1.00. 	

A thorough investigation of any money market fund or investment pool is required prior to investing, as well as on an ongoing basis. The following information should be obtained and analyzed:

- (i) A description of eligible investment securities.
- (ii) A written statement of investment policies and objectives.
- (iii) A description of interest calculation and their distribution, and the treatment of gains and losses.
- (iv) A description of how the securities are safeguarded and how often the securities are priced and the program audited.
- (v) Information about the size and frequency of deposits and withdrawals allowed, and how much notice is needed for withdrawals.
- (vi) A schedule for receiving statements and portfolio listings.
- (vii) A fee schedule, as well as how and when the fees are assessed.
- (viii) The rating of the pool/fund.
- (ix) Information about investment advisers, including registration with the Securities and Exchange Commission, length of experience and total assets under management.

J. Asset-Backed Corporate Notes

Description: Asset-backed securities are bonds backed by a pool of physical or financial assets that cannot easily be traded in their existing form. By pooling together a large portfolio of these illiquid assets they can be converted into instruments that may be offered and sold more freely in the capital markets. A financial security backed by a loan, lease or receivables against assets other than real estate and mortgage backed securities.

Asset-backed Corporate Notes	City Of Hayward		CA Govt Code 53601 (n)
Maximum Maturity	Bullet maturity = 4 years	Stated final maturity = 5 years	5 years
Credit Rating Limit	Issuer Rating of A or better.	Security Rating of AB themselves, AA or better.	AA
Authorized Investment Limit	20 % for AB securities alone.	40% for total of MTN and AB securities.	20%
Per Issuer Limit	10%		None
Other Requirement	<ul style="list-style-type: none"> Mortgage-backed corporate notes shall <u>not</u> be invested in. 		

K. County Agency Investment Fund;

County Agency Pool	City Of Hayward	CA Govt Code 53684
Maximum Maturity	N/A	N/A
Credit Rating Limit	Not rated	N/A
Authorized Investment Limit	15%	N/A
Per Issuer Limit	10%	N/A
Other Requirement	N/A	

L. State of California Local Agency Investment Fund (LAIF) –

Description: This is the fund in which the State of California pools its investments and the investments of California public agencies, which participate in LAIF. An agency participates by depositing funds in the State pool.

LAIF	City Of Hayward	CA Govt Code 16429.1
Maximum Maturity	None	None
Credit Rating Limit	None	None
Authorized Investment Limit	\$100 Million	None
Per Issuer Limit	None	None
Other Requirement	<ul style="list-style-type: none"> • The current limit on any one City investment in this fund for the number of transactions (deposits or withdrawals) is limited to 15 per month. • The City maintains a total of three LAIF investments (up to \$50 million each). • The City's participation in LAIF shall conform to State Regulation. • In general, it is the City's intention to use investment in LAIF as a temporary repository for short-term funds needed for liquidity purposes. • The Finance Director shall maintain on file appropriate information concerning LAIF's current investment policies, practices and performance. • The Finance Director shall maintain LAIF's requirements for participation, including, but not limited to, limitations on deposits or withdrawals and the composition of the portfolio. 	

M. Certificates of Deposit

Description: A time deposit with a specific maturity evidenced by a certificate.

Certificates of Deposit	City Of Hayward	CA Govt Code 53601 (m)
Maximum Maturity	4 Year	5 Years
Credit Rating Limit	Rated at least A-1/P-1/F-1 for short term, and A for long-term	Rated at least A-1/P-1/F-1 for short term, and A for long-term
Authorized Investment Limit	25%	None
Per Issuer Limit	20%	None
Other Requirement	<ul style="list-style-type: none"> • In accordance with California statutes, City deposits including collateralized certificates of deposit shall not exceed the total paid-up capital (to include capital notes and debentures) and surplus of any depository bank, or the total of the net worth of any savings and loan association. • The money shall be deposited in any bank, savings association or federal association, state or federal credit union, or federally insured industrial loan company with the objective of realizing maximum return, consistent with prudent financial management, except that money shall not be deposited in any state or federal credit union if a member of the legislative body of a local agency, or any person with investment decision making authority of the administrative office, manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency, also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or supervisory committee, of the state or federal credit union. 	

IX. Prohibited Investments

Consistent with California Government Code 53601.6, inverse floaters, range notes, mortgage derived interest-only strips, or any security that could result in zero interest accrual if held to maturity are specifically prohibited, except to the extent that they are shares of diversified management companies registered under the Investment Company Act of 1940. The City shall not purchase any security rated A-1 and or A+ or below if that security has been placed on “credit watch” for a possible downgrade by either Moody’s Investor Services or Standard and Poor’s. Investments not specifically approved by this policy are prohibited.

X. Internal Controls

The Finance Director shall establish a system of internal controls. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City. Controls deemed most important include:

- **Clearly delegating authority to subordinate staff members.** Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
- **Custodial safekeeping.** Securities purchased from any bank or dealer including appropriate collateral (as defined by State Law) shall be placed with an independent third party for custodial safekeeping.
- **Separating transaction authority from accounting and record keeping.** By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
- **Delivery versus payment.** All trades where applicable will be executed by delivery vs. payment (DVP). This ensures that securities are deposited in the eligible financial institution before the release of funds. A third party custodian as evidenced by safekeeping receipts will hold securities.
- **Avoiding physical delivery securities.** Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
- **Confirming telephone transactions for investments and wire transfers in writing.** Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved

by the appropriate person. Written communications may be via fax if on letterhead and the safekeeping institution has a list of authorized signatures.

- **Developing wire transfer agreements with the lead bank or third party custodian.** This agreement should outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.

XI. Evaluation of Investment Officer Actions

All participants in the investment process shall act responsibly as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. Nevertheless, in a diversified portfolio, it must be recognized that occasional measured losses are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

The City adheres to the guidance provided by the prudent investor standard which obligates a fiduciary to ensure that investments shall be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which 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. Investment officers acting in accordance with written procedures and the statement 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 fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this plan.

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.

XII. Bond Proceeds

The investment of bond proceeds will be made in accordance with applicable bond indentures.

XIII. Credit Downgrade

In the event that a financial institution or depository receives a Standard and Poor's, Moody's, Fitch or Keefe rating equal to or lower than Standard and Poor's rating of BBB, the Finance Director promptly shall make and implement an informed decision on whether to sell, withdraw from deposit or retain any security or deposit in the City portfolio issued or held by such affected financial institution or depository. The Finance Director may consult the Investment Advisory Committee on the action to be taken and shall advise its Chairman and Members of the final disposition of the matter either by memorandum or at the next Investment Advisory Committee meeting. If the meeting is scheduled more than a month after action is taken, the communication

of disposition will be by memorandum.

XIV. Rating Agency Changes

In the event a security held by the City is the subject of a rate drop which brings it below accepted minimums specified herein, or the security is placed on negative credit watch, where downgrade could result in a rate drop below acceptable levels, the investment advisor who purchased the security will immediately notify the Finance Director of that fact.

The course of action to be followed will then be decided on a case by case basis, considering such factors as the reason for the rate drop, prognosis for recovery or further drop, and market price of the security. The City Council will be advised of the situation and intended course of action by e-mail or fax.

XV. Banks and Security Dealer Selection

The Investment Advisory Committee shall approve all financial institutions from which securities are purchased or sold.

In selecting financial institutions for the deposit or investment of City funds, the Finance Director shall consider the creditworthiness of institutions. The Finance Director shall continue to monitor financial institutions' credit characteristics and financial history throughout the period in which City funds are deposited or invested.

Only primary government securities dealers that report to the New York Federal Reserve shall be used for the purchase of repurchase agreements. (It is acknowledged that inclusion on the primary dealer listing of the Federal Reserve Bank of New York is not a guarantee of creditworthiness.)

Effective October 14, 1987, the City shall be prohibited from investing funds with any person who is knowingly or intentionally engaged in the development or production of nuclear weapons. Person is defined as any person, Private Corporation, institution or other entity, which is within the jurisdiction of the City of Hayward.

XVI. Maturity and Diversification

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

It is City policy to diversify the investment portfolio in order to reduce the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The following strategies and constraints shall apply:

1. **Maintains Liquidity** - Concern for liquidity shall be insured through practices that

include covering the next vendor disbursement date and payroll date through maturing investments of U.S. Treasury bills.

2. **Staggered Maturities** - Portfolio maturities shall be staggered in a way that avoids undue concentration of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity.
3. **Maturity Diversification** - Risks of market price volatility shall be controlled through maturity diversification such that aggregate price losses on instruments with maturities exceeding one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.
4. **Specific Diversification Limitations** – The City shall not invest in instruments whose maturities exceed four years at the time of purchase. Instruments with maturities greater than two years shall be limited to (1) U.S. Treasury and agency obligations; (2) medium term notes rated "A" or its equivalent or better by at least one of the four national rating services identified above; (3) certificates of deposit rated "A", its equivalent or better by at least one of the four national rating services identified above; and (4) asset-backed notes as regards the "bullet" maturity, provided the "stated final" maturity is not more than five years. The average maturity of the City's short-term portfolio shall not exceed one year.

It is the intent that investments shall be managed in such a way that any market price losses resulting from interest-rate volatility would be offset by coupon income and current income received from the balance of the portfolio during a twelve-month period.

5. **Specific diversification limitation shall be imposed on the portfolio as follows:**
 - a. No more than 40% of the portfolio may be invested beyond twelve months, and the average maturity of the portfolio shall not exceed 400 calendar days.
6. **The maximum percentage of the total portfolio that shall be placed at any one time in each of the categories of investment is summarized below.**

Security Type	Maximum Allowable Portfolio Percentage						
	100%	50%	40%	30%	25%	20%	15%
US Treasury Notes/Bills							
US Agencies – Fully Backed							
US Agencies – Government Sponsored Entities (GSE)							
LAIF							
Fully collateralized certificates of deposit	✓						

Fully collateralized medium term notes	✓						
Banker's Acceptance (BA)							
Negotiable Certificates of Deposit (NCD)				✓			
Medium Term Notes (MTN) (30 % alone, and no more than 40% when combined with AB category)				✓			
Asset-backed (AB) Securities (20% alone and no more than 40% when combined with the MTN category)						✓	
County Treasurer Pool							✓
Commercial Paper (CP)							✓

In accordance with California statutes, City deposits including collateralized certificates of deposit shall not exceed the total paid-up capital (to include capital notes and debentures) and surplus of any depository bank, or the total of the net worth of any savings and loan association.

XVII. Risk Tolerance

The City recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to control risk. Investment managers are expected to display prudence in the selection of securities, as a way to minimize default risk. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio.

The Finance Director shall periodically establish guidelines and strategies to control risks of default, market price changes and illiquidity. All investment reports shall specifically address whether current investment results have been affected by any of the foregoing risks, and shall explain what actions investment officials have taken to control or correct for such risks.

In addition to these general policy considerations, the following specific policies will be strictly observed:

1. All investment funds will be placed directly with qualified financial institutions. The City will not deposit or invest funds through third parties or money brokers.
2. All transactions will be executed on a delivery versus payment basis.
3. The City will not enter into reverse repurchase agreements other than for cash flow requirements; nor shall it trade in options on future contracts unless, upon recommendation by the Investment Advisory Committee, such transactions are specifically authorized by the City Council.
4. A competitive bid process, utilizing financial institutions deemed eligible by the Investment Advisory Committee, will be used to place investment purchases. Based on annual evaluation, securities dealers, banks and other financial

institutions will be dropped or continued on the eligibility list. The following criteria will be used in the evaluation:

- a. number of transactions competitively won
 - b. prompt and accurate confirmation of transactions
 - c. efficient securities delivery
 - d. accurate market information account servicing
5. The Finance Director shall designate an official to manage investments and designate a second official to perform investment management during absences of the primary designee. The Finance Director shall insure that competent investment management is maintained and shall insure that, if both designated investment officials are replaced or are simultaneously absent, any temporary replacement(s) shall be closely supervised, indoctrinated in the requirements of this Statement of Investment Policy, and given written investment procedures regulating the authority to invest in maturities beyond six months by means of appropriate controls and restraining requirements.
6. In order to assist in identifying "qualified financial institutions," the Finance Director shall forward copies of the City's Investment Policy to those financial institutions with which the City is interested in doing business and require written acknowledgement of the Policy.

XVIII. Safekeeping and Custody

To protect against potential fraud and embezzlement, the assets of the City shall be secured through third-party custody and safekeeping procedures.

The investment official shall be bonded to protect the public against possible embezzlement and malfeasance. An independent auditor shall review safekeeping procedures annually. The auditor may conduct surprise audits of safekeeping and custodial procedures.

All cash and securities in the City's portfolio, shall be held in safekeeping in the City's name by a third party bank trust department, acting as agent for the City under the terms of a custody agreement executed by the bank and the City.

All securities will be received and delivered using standard delivery versus payment (DVP) procedures; the City's safekeeping agent will only release payment for a security after the security has been properly delivered. The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; and, (ii) money market mutual funds, since the purchased securities are not deliverable.

Appendix A

Comparison and Interpretation of Credit Ratings ¹

Long Term Debt Ratings

Rating Interpretation	Moody's	Standard & Poor's	Fitch
Best-quality grade	Aaa	AAA	AAA
High-quality grade	Aa1 Aa2 Aa3	AA+ AA AA-	AA+ AA AA-
Upper Medium Grade	A1 A2 A3	A+ A A-	A+ A A-
Medium Grade	Baa1 Baa2 Baa3	BBB+ BBB BBB-	BBB+ BBB BBB-
Speculative Grade	Ba1 Ba2 Ba3	BB+ BB BB-	BB+ BB BB-
Low Grade	B1 B2 B3	B+ B B-	B+ B B-
Poor Grade to Default	Caa	CCC+	CCC
In Poor Standing	- -	CCC CCC-	- -
Highly Speculative Default	Ca C	CC -	CC -
Default	- - -	- - D	DDD DD D

Short Term/Commercial Paper Investment Grade Ratings

Rating Interpretation	Moody's	Standard & Poor's	Fitch
Superior Capacity	P-1	A-1+/A-1	F1+/F1
Strong Capacity	P-2	A-2	F2
Acceptable Capacity	P-3	A-3	F3

Appendix B

¹ These are general credit rating guidelines and are for information only.

Glossary

BANKER'S ACCEPTANCE: A money market instrument created to facilitate international trade transactions. This instrument is highly liquid and safe because the risk of the trade transaction is transferred to the bank that "accepts" the obligation to pay the investor.

BANK DEPOSITS: Collateral in the form of currency that may be in the form of demand accounts (checking) or investments in accounts that have a fixed term and negotiated rate of interest.

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

BID: The price at which a buyer offers to buy a security.

BOND: A bond is essentially a loan made by an investor to a division of the government, a government agency, or a corporation. The bond is a promissory note to repay the loan in full at the end of a fixed time period. The date on which the principal must be repaid is called the maturity date, or maturity. In addition, the issuer of the bond, that is, the agency or corporation receiving the loan proceeds and issuing the promissory note, agrees to make regular payments of interest at a rate initially stated on the bond. Bonds are rated according to many factors, including cost, degree of risk, and rate of income.

BROKER: A broker brings buyers and sellers together for a transaction for which the broker receives a commission. Brokers generally do not hold inventory or make a market for securities.

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION (CDIAC): CDIAC provides information, education and technical assistance on public debt and investments to local public agencies and other public finance professionals.

CALLABLE SECURITIES: An investment security that contains an option allowing the issuer to retire the security prior to its final maturity date.

CALIFORNIA LOCAL AGENCY OBLIGATIONS: See Local Agency Bonds.

CAPITAL GAIN: The amount by which an asset's selling price exceeds its initial purchase price.

CAPITAL LOSS: The decrease in the value of an investment or asset below its initial purchase price.

CD (CERTIFICATE OF DEPOSIT): A CD is a note issued by a bank for a savings deposit that an individual agrees to leave invested in the bank for a certain term. At

the end of this term, on the maturity date, the principal may either be paid to the individual or rolled over into another CD. Interest rates on CDs between banks are competitive. Monies deposited into a CD are insured by the bank, thus they are a low-risk investment. Maturities may be as short as a few weeks or as long as several years. Most banks set heavy penalties for premature withdrawal of monies from a CD. Large-denomination CD's are typically negotiable.

CFA INSTITUTE: CFA Institute is the global, not-for-profit association of investment professionals that awards the CFA (Chartered Financial Analyst®) designation. The Institute promotes the highest ethical standards and offers a range of educational opportunities online and around the world.

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

COLLATERALIZATION: Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

COMMERCIAL PAPER: The short-term unsecured debt of corporations or companies.

CONVEXITY: Measures the rate of change in a bond's sensitivity to interest rate moves. It's the rate of change in a bond's duration (price volatility).

COUNTY POOLS: See County Pooled Investment Fund.

COUNTY POOLED INVESTMENT FUNDS: The aggregate of all funds from public agencies placed in the custody of the county treasurer or chief finance officer for investment and reinvestment.

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.

CREDIT RISK: The likelihood that an issuer will be unable to make scheduled payments of interest and principal on an outstanding obligation.

CUSTODIAN: An agent such as a broker or a bank that stores a customer's investments for safekeeping. The custodian does not have fiduciary responsibilities.

DEALER: A dealer, as opposed to a broker, acts as a principal in security transactions, selling securities from, and buying securities for his/her own position.

DEFAULT: To default is to fail to repay principal or make timely interest payments on a bond or other debt investment security. Also, a default is a breach of or failure to fulfill the terms of a note or contract.

DELIVERY VERSUS 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.

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

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

FIDUCIARY: An individual who holds something in trust for another and bears liability for its safekeeping.

FLOATING RATE INVESTMENTS: Notes whose interest rate is adjusted according to the interest rates of other financial instruments. These instruments provide protection against rising interest rates, but pay lower yield than fixed rate notes.

FUTURES: Commodities, which are sold to be delivered at a future date.

INVERSE FLOATING RATE INVESTMENTS: Variable-rate notes (such as inverse floating rate notes) whose coupon and value increase as interest rates decrease.

INTEREST ONLY STRIPS: Securities with cash flow based entirely on the monthly interest payments received from a mortgage pool.

INVESTMENT PROGRAM: The process of modern portfolio management. The process includes establishing investment policy, analysis of the economic and capital markets environment, portfolio monitoring and rebalancing, and measuring performance.

LOCAL AGENCY BONDS: These bonds are issued by a county, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

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.

LIQUIDITY: The ease with which investments can be converted to cash at their present market value. Liquidity is significantly affected by the number of buyers and sellers trading a given security and the number of units of the security available for trading.

MARKET RISK: Market risk is the risk that investments will change in value based on changes in general market prices.

MARKET VALUE: The price at which a security is trading and could presumably 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.

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

MODERN PORTFOLIO THEORY: overall investment strategy that seeks to construct an optimal portfolio by considering the relationship between risk and return. This theory recommends that the risk of a particular investment should not be looked at on a standalone basis, but rather in relation to how that particular investment's price varies in relation to the variation in price of the market portfolio. The theory goes on to state that given an investor's preferred level of risk, a particular portfolio can be constructed that maximizes expected return for that level of risk.

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

MORTGAGE BACKED SECURITIES: A debt instrument with a pool of real estate loans as the underlying collateral. The mortgage payments of the real estate assets are used to pay interest and principal on the bonds.

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.

MUTUAL FUNDS: An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. **Money market mutual funds** invest exclusively in short term (one day to one year) debt obligations such as Treasury bills, certificates of deposit, and commercial paper. The principal objective is the preservation of capital and generation of current income.

OFFER: The price asked by a seller of securities. See Asked and Bid.

OPTION: A contract that provides the right, but not the obligation, to buy or to sell a

specific amount of a specific security within a predetermined time period. A call option provides the right to buy the underlying security. A put option provides the right to sell the underlying security. The seller of the contracts is called the writer.

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.

PRINCIPAL ONLY STRIPs: Securities with cash flow based entirely on the monthly principal payments received from a mortgage pool.

RANGE NOTES: A range note is a bond that pays interest if a specified interest rate remains above or below a certain level and/or remains within a certain range.

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 the current income return.

REPURCHASE AGREEMENT (RP, Repo): 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 customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held by the bank in the customer's name.

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

SECURITIES AND EXCHANGE COMMISSION (SEC): A federal government agency comprised of five commissioners appointed by the President and approved by the Senate. The SEC was established to protect the individual investor from fraud and malpractice in the marketplace. The Commission oversees and regulates the activities of registered investment advisers, stock and bond markets, broker/dealers, and mutual funds.

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

STATE OBLIGATIONS: Registered treasury notes or bonds of any of the other 49 United 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 United States, in addition to California.

STRIPS: Bonds, usually issued by the U.S. Treasury, whose two components, interest and repayment of principal, are separated and sold individually as zero-coupon bonds. Strips are an acronym for Separate Trading of Registered Interest and Principal of Securities.

TRUSTEE: An individual or organization, which holds or manages and invests assets for the benefit of another. The trustee is legally obliged to make all trust-related decisions with the trustee's interests in mind, and may be liable for damages in the event of not doing so.

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

U.S. AGENCY OBLIGATIONS: Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments. The obligations are issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. Issuers include, Fannie Mae, Farmer Mac, Federal Farm Credit Banks, Freddie Mac, Federal Home Loan Banks, Financing Corporation, Tennessee Valley Authority, Resolution Trust Funding Corporation, World Bank, Inter-American Development Bank and PEFCO.

U.S. TREASURY OBLIGATIONS (TREASURIES): 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 (T-bills). The Treasury currently issues three-month and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth cash flows.

Treasury Notes: All securities issued with initial maturities of two to ten years are called Treasury Notes (T-notes), and pay interest semi-annually.

Treasury Bonds: All securities issued with initial maturities greater than ten years are called Treasury Bonds (T-bonds). Like Treasury Notes, they pay interest semi-annually.

YIELD: The rate of annual income return on an investment, expressed as a percentage. Yield does not include capital gains. (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 above 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.

ZERO-COUPON BOND: A bond on which interest is not payable until maturity (or earlier redemption), but compounds periodically to accumulate to a stated maturity amount. Zero-coupon bonds are typically issued at a discount and repaid at par upon maturity.