



CITY OF  
**HAYWARD**  
HEART OF THE BAY

**CITY COUNCIL AGENDA**  
**NOVEMBER 27, 2012**

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**MAYOR MICHAEL SWEENEY**  
**MAYOR PRO TEMPORE MARVIN PEIXOTO**  
**COUNCIL MEMBER BARBARA HALLIDAY**  
**COUNCIL MEMBER FRANCISCO ZERMEÑO**  
**COUNCIL MEMBER MARK SALINAS**  
**COUNCIL MEMBER GREG JONES**  
**COUNCIL MEMBER AL MENDALL**

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**CITY COUNCIL MEETING FOR NOVEMBER 27, 2012**  
777 B STREET, HAYWARD CA 94541  
[WWW.HAYWARD-CA.GOV](http://WWW.HAYWARD-CA.GOV)

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**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 McAdoo, Human Resources Director Robustelli, Finance Director Vesely, Deputy City Attorney Vashi, and Director of Maintenance Services McGrathUnder Negotiation: All Groups
  3. Adjourn to City Council Meeting
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**SPECIAL JOINT CITY COUNCIL/REDEVELOPMENT SUCCESSOR AGENCY/  
HOUSING AUTHORITY/PUBLIC FINANCING AUTHORITY MEETING**  
**Council Chambers – 7:00 PM**

**CALL TO ORDER Pledge of Allegiance** Council Member Mendall

**ROLL CALL**

**CLOSED SESSION ANNOUNCEMENT**

**PUBLIC COMMENTS**

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*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.*

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**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 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 any time before the Consent Calendar is voted on by Council if you wish to speak on a Consent Item.)*

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## CONSENT

1. Adoption of an Ordinance Amending Chapter 10, Article 1 of the Hayward Municipal Code by Rezoning Certain Property at the Northeast Corner Of Eden and Denton Avenues in Connection with Zone Change Application No. PL-2010-0237 Relating to a Development Agreement for Proposed One-Acre Park Expansion and 36 Single-Family Homes  
[Staff Report](#)  
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2. Adoption of an Ordinance Authorizing Execution of a Development Agreement with Chang Income Property Partnership, L.P., Barrett Community Hospital Series (R14), for Development of the Greenwood Park Homes Project  
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3. Adoption of an Ordinance Amending Article 3 of Chapter 9, Sections 9-3.101 Through 9-3.906, of the Hayward Municipal Code Relating to Building Abatement  
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[Staff Report](#)  
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6. FY 2012 Annual Investment Review, Adoption of the FY 2013 Statement of Investment Policy and Delegation of Investment Authority  
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[Attachment IV](#)

November 27, 2012



[Attachment V](#)  
[Attachment VI](#)

**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 MEETING, TUESDAY, DECEMBER 4, 2012**

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**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 Card must be completed by each speaker and is available from the City Clerk at the meeting.*

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**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.

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\*\*\*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, 4<sup>th</sup> 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. \*\*\*

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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.

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***Please visit us on:***



**DATE:** November 27, 2012

**TO:** Mayor and City Council

**FROM:** City Clerk

**SUBJECT:** Adoption of an Ordinance Amending Chapter 10, Article 1 of the Hayward Municipal Code by Rezoning Certain Property at the Northeast Corner Of Eden and Denton Avenues in Connection with Zone Change Application No. PL-2010-0237 Relating to a Development Agreement for Proposed One-Acre Park Expansion and 36 Single-Family Homes

**RECOMMENDATION**

That the City Council adopts the Ordinance introduced on November 13, 2012.

**BACKGROUND**

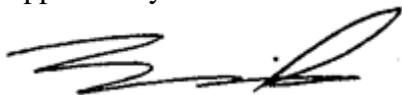
The Ordinance was introduced by Council Member Zermeño at the November 13, 2012, meeting of the City Council with the following vote:

AYES:	Council Members:	Zermeño, Jones, Halliday, Peixoto, Salinas, Mendall
	Mayor:	Sweeney
NOES:	Council Members:	None
ABSENT:	Council Members:	None
ABSTAIN:	Council Members:	None

The summary of the Ordinance was published in the Hayward Daily Review on Saturday, November 24, 2012. Adoption at this time is therefore appropriate.

*Prepared and Recommended by:* Miriam Lens, City Clerk

Approved by:



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Fran David, City Manager

Attachments:

Attachment I      Summary of Ordinance Published on 11/24/12

**PUBLIC NOTICE OF AN INTRODUCTION OF ORDINANCE  
BY THE CITY COUNCIL OF THE CITY OF HAYWARD**

AN ORDINANCE AMENDING CHAPTER 10, ARTICLE 1 OF THE HAYWARD MUNICIPAL CODE BY REZONING CERTAIN PROPERTY AT THE NORTHEAST CORNER OF EDEN AND DENTON AVENUES IN CONNECTION WITH ZONE CHANGE APPLICATION NO. PL-2010-0237 RELATING TO A DEVELOPMENT AGREEMENT FOR PROPOSED ONE-ACRE PARK EXPANSION AND 36 SINGLE-FAMILY HOMES

THE CITY COUNCIL OF THE CITY OF HAYWARD DOES ORDAIN AS FOLLOWS:

Section 1. Rezoning.

Section 2. Severance. Should any part of this ordinance be declared by a final decision by a court or tribunal of competent jurisdiction to be unconstitutional, invalid or beyond authority of the City, such decision shall not affect the validity of the remainder of this ordinance, which shall continue in full force and effect, provided the remainder of the ordinance, absent the excised portion, can be reasonable interpreted to give effect to intentions of the City Council.

Section 3. Effective Date. This ordinance shall become effective immediately upon adoption.

Introduced at the special meeting of the Hayward City Council held November 13, 2012, the above-entitled Ordinance was introduced by Council Member Zermeño.

This ordinance will be considered for adoption at the special meeting of the Hayward City Council, to be held on November 27, 2012, at 7:00 p.m., in the Council Chambers, 777 B Street, Hayward, California. The full text of this Ordinance is available for examination by the public in the Office of the City Clerk.

Dated: November 24, 2012  
Miriam Lens, City Clerk  
City of Hayward

**DATE:** November 27, 2012

**TO:** Mayor and City Council

**FROM:** City Clerk

**SUBJECT:** Adoption of an Ordinance Authorizing Execution of a Development Agreement with Chang Income Property Partnership, L.P., Barrett Community Hospital Series (R14), for Development of the Greenwood Park Homes Project

**RECOMMENDATION**

That the City Council adopts the Ordinance introduced on November 13, 2012.

**BACKGROUND**

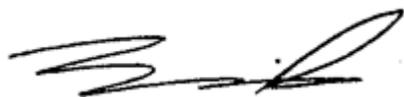
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AYES:	Council Members:	Zermeño, Jones, Halliday, Peixoto, Salinas, Mendall
	Mayor:	Sweeney
NOES:	Council Members:	None
ABSENT:	Council Members:	None
ABSTAIN:	Council Members:	None

The summary of the Ordinance was published in the Hayward Daily Review on Saturday, November 24, 2012. Adoption at this time is therefore appropriate.

*Prepared and Recommended by:* Miriam Lens, City Clerk

Approved by:



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Fran David, City Manager

Attachments: Attachment I Summary of Ordinance Published on 11/24/12

**PUBLIC NOTICE OF AN INTRODUCTION OF ORDINANCE  
BY THE CITY COUNCIL OF THE CITY OF HAYWARD**

AN ORDINANCE AUTHORIZING EXECUTION OF A DEVELOPMENT  
AGREEMENT WITH CHANG INCOME PROPERTY PARTNERSHIP, L.P.,  
BARRETT COMMUNITY HOSPITAL SERIES (R14), FOR DEVELOPMENT  
OF THE GREENWOOD PARK HOMES PROJECT

THE CITY COUNCIL OF THE CITY OF HAYWARD DOES ORDAIN AS FOLLOWS:

Section 1. Findings.

Section 2. Authorization of Greenwood Park Project Development Agreement.

Section 3. Effective Date. This ordinance shall become effective thirty days after adoption.

Section 4. Severance. Should any part of this ordinance be declared by a final decision by a court or tribunal of competent jurisdiction to be unconstitutional, invalid, or beyond the authority of the City, such decision shall not affect the validity of the remainder of this ordinance, which shall continue in full force and effect, provided that the remainder of the ordinance, absent the unexcised portion, can be reasonably interpreted to give effect to the intentions of the City Council.

Introduced at the special meeting of the Hayward City Council held November 13, 2012, the above-entitled Ordinance was introduced by Council Member Zermeño.

This ordinance will be considered for adoption at the special meeting of the Hayward City Council, to be held on November 27, 2012, at 7:00 p.m., in the Council Chambers, 777 B Street, Hayward, California. The full text of this Ordinance is available for examination by the public in the Office of the City Clerk.

Dated: November 24, 2012  
Miriam Lens, City Clerk  
City of Hayward

**DATE:** November 27, 2012

**TO:** Mayor and City Council

**FROM:** City Clerk

**SUBJECT:** Adoption of an Ordinance Amending Article 3 of Chapter 9, Sections 9-3.101 through 9-3.906, of the Hayward Municipal Code Relating to Building Abatement

**RECOMMENDATION**

That the City Council adopts the Ordinance introduced on November 13, 2012.

**BACKGROUND**

The Ordinance was introduced by Council Member Zermeño at the November 13, 2012, meeting of the City Council with the following vote:

<b>AYES:</b>	<b>Council Members:</b>	Zermeño, Jones, Halliday, Peixoto, Salinas, Mendall
	<b>Mayor:</b>	Sweeney
<b>NOES:</b>	<b>Council Members:</b>	None
<b>ABSENT:</b>	<b>Council Members:</b>	None
<b>ABSTAIN:</b>	<b>Council Members:</b>	None

The summary of the Ordinance was published in the Hayward Daily Review on Saturday, November 24, 2012. Adoption at this time is therefore appropriate.

*Prepared and Recommended by:* Miriam Lens, City Clerk

Approved by:



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Fran David, City Manager

Attachments:

Attachment I Summary of Ordinance Published on 11/24/12

**PUBLIC NOTICE OF AN INTRODUCTION OF ORDINANCE  
BY THE CITY COUNCIL OF THE CITY OF HAYWARD**

ORDINANCE AMENDING ARTICLE 3 OF CHAPTER 9, SECTIONS 9-3.101 THROUGH 9-3.906, OF THE HAYWARD MUNICIPAL CODE RELATING TO BUILDING ABATEMENT

THE CITY COUNCIL OF THE CITY OF HAYWARD DOES ORDAIN AS FOLLOWS:

Section 1. Finding.

Section 2. Upon the adoption of this Ordinance, Sections 9-3.101 through 9-3.906 of the Hayward Municipal Code are hereby repealed and, in substitution thereof, new Sections 9-3.101 through 9-3.901 of the Hayward Municipal Code are hereby enacted to read as follows:

**ARTICLE 3  
BUILDING ABATEMENT**

Section	Subject Matter
9-3.101	TITLE
9-3.102	PURPOSE
9-3.103	SCOPE
9-3.104	ALTERATIONS, ADDITIONS, AND REPAIRS

**ENFORCEMENT**

9-3.201	CITY BUILDING OFFICIAL
9-3.202	ADMINISTRATION
9-3.203	INSPECTIONS
9-3.204	RIGHT OF ENTRY
9-3.205	ABATEMENT
9-3.206	INSPECTION OF WORK

**DEFINITIONS**

9-3.301	GENERAL
9-3.302	UNSAFE, SUBSTANDARD, AND DANGEROUS BUILDING

**NOTICES AND ORDERS OF BUILDING OFFICIAL**

9-3.401	NOTICE AND ORDER
9-3.402	POSTING OF SIGNS
9-3.403	RECORDATION
9-3.404	STANDARDS TO BE FOLLOWED
9-3.405	DEMOLITION, AN ALTERNATIVE TO REPAIR

**APPEAL OF BUILDING OFFICIAL'S NOTICE AND ORDER**

9-3.501	BUILDING ABATEMENT HEARING PANEL
9-3.502	RIGHT TO APPEAL NOTICE AND ORDER

- 9-3.503 FAILURE TO APPEAL NOTICE AND ORDER
- 9-3.504 NOTICE OF HEARING
- 9-3.505 EFFECT OF APPEAL
- 9-3.506 DECISION OF HEARING PANEL

ENFORCEMENT OF ORDER

- 9-3.601 FAILURE TO COMPLY WITH ORDER
- 9-3.602 BUILDING OFFICIAL AUTHORIZED TO DO WORK

PERFORMANCE OF WORK

- 9-3.701 PLANS AND SPECIFICATIONS FOR WORK
- 9-3.702 FINANCING OF WORK

RECOVERY OF COSTS

- 9-3.801 NOTICE OF LIEN/SPECIAL ASSESSMENT
- 9-3.802 LIEN/SPECIAL ASSESSMENT HEARING
- 9-3.803 REPORT OF COSTS
- 9-3.804 NOTICE OF REPORT
- 9-3.805 COLLECTION ON TAX ROLL

JUDICIAL REVIEW

- 9-3.901 JUDICIAL REVIEW OF HEARING PANEL DECISION

Section 3. Severance. Should any part of this ordinance be declared by a final decision by a court or tribunal of competent jurisdiction to be unconstitutional, invalid, or beyond the authority of the City, such decision shall not affect the validity of the remainder of this ordinance, which shall continue in full force and effect, provided that the remainder of the ordinance, absent the unexcised portion, can be reasonably interpreted to give effect to the intentions of the City Council.

Section 4. In accordance with the provisions of Section 620 of the City Charter, this ordinance shall become effective until thirty days from and after the date of its adoption.

Introduced at the special meeting of the Hayward City Council held November 13, 2012, the above-entitled Ordinance was introduced by Council Member Zermeño.

This ordinance will be considered for adoption at the special meeting of the Hayward City Council, to be held on November 27, 2012, at 7:00 p.m., in the Council Chambers, 777 B Street, Hayward, California. The full text of this Ordinance is available for examination by the public in the Office of the City Clerk.

Dated: November 24, 2012  
Miriam Lens, City Clerk  
City of Hayward

**DATE:** November 27, 2012  
**TO:** Mayor and City Council  
**FROM:** City Clerk  
**SUBJECT:** Adoption of an Ordinance Amending Chapter 11, Article 3 of the Hayward Municipal Code Relating to the Collection of Delinquent Charges for Sewer Service

**RECOMMENDATION**

That the City Council adopts the Ordinance introduced on November 13, 2012.

**BACKGROUND**

The Ordinance was introduced by Council Member Mendall at the November 13, 2012, meeting of the City Council with the following vote:

<b>AYES:</b>	<b>Council Members:</b>	Zermeño, Jones, Halliday, Peixoto, Salinas, Mendall
	<b>Mayor:</b>	Sweeney
<b>NOES:</b>	<b>Council Members:</b>	None
<b>ABSENT:</b>	<b>Council Members:</b>	None
<b>ABSTAIN:</b>	<b>Council Members:</b>	None

The summary of the Ordinance was published in the Hayward Daily Review on Saturday, November 24, 2012. Adoption at this time is therefore appropriate.

*Prepared and Recommended by:* Miriam Lens, City Clerk

Approved by:



---

Fran David, City Manager

**Attachments:**  
Attachment I Summary of Ordinance Published on 11/24/12

**PUBLIC NOTICE OF AN INTRODUCTION OF ORDINANCE  
BY THE CITY COUNCIL OF THE CITY OF HAYWARD**

**AN ORDINANCE AMENDING CHAPTER 11, ARTICLE 3 OF THE  
HAYWARD MUNICIPAL CODE RELATING TO THE COLLECTION  
OF DELINQUENT CHARGES FOR SEWER SERVICE**

THE CITY COUNCIL OF THE CITY OF HAYWARD DOES ORDAIN AS FOLLOWS:

Section 1. Upon the adoption of this ordinance, Article 11, Chapter 3, Sections 11-3.461 through 11-3.465 of the Hayward Municipal Code, relating to the collection of delinquent charges for sewer service, is hereby enacted to read as follows:

SECTION 11-3.461 COLLECTION OF DELINQUENT SEWER SERVICE CHARGES ON  
TAX ROLL.

SECTION 11-3.462 ADMINISTRATIVE HEARING PROCESS.

SECTION 11-3.463 ACCOUNT AND REPORT OF DELINQUENT CHARGES.

SECTION 11-3.464 NOTICE OF REPORT.

SECTION 11-3.465 REPORT BY THE DIRECTOR OF FINANCE.

Section 2. Severance. Should any part of this ordinance be declared by a final decision by a court or tribunal of competent jurisdiction to be unconstitutional, invalid, or beyond the authority of the City, such decision shall not affect the validity of the remainder of this ordinance, which shall continue in full force and effect, provided that the remainder of the ordinance absent the unexcised portion, can be reasonably interpreted to give effect to the intentions of the City Council.

Section 3. Effective Date. In accordance with the provisions of Section 620 of the City Charter this ordinance shall become effective 30 days from and after the date of its adoption.

Introduced at the special meeting of the Hayward City Council held November 13, 2012, the above-entitled Ordinance was introduced by Council Member Mendall.

This ordinance will be considered for adoption at the special meeting of the Hayward City Council, to be held on November 27, 2012, at 7:00 p.m., in the Council Chambers, 777 B Street, Hayward, California. The full text of this Ordinance is available for examination by the public in the Office of the City Clerk.

Dated: November 24, 2012  
Miriam Lens, City Clerk  
City of Hayward

**DATE:** November 27, 2012  
**TO:** Mayor and City Council  
**FROM:** City Clerk  
**SUBJECT:** Adoption of an Ordinance Amending Chapter 11, Article 2 of the Hayward Municipal Code Relating to Responsibility for Payment of Water Charges and the Collection of Delinquent Charges for Water Service

**RECOMMENDATION**

That the City Council adopts the Ordinance introduced on November 13, 2012.

**BACKGROUND**

The Ordinance was introduced by Council Member Mendall at the November 13, 2012, meeting of the City Council with the following vote:

<b>AYES:</b>	<b>Council Members:</b>	Zermeño, Jones, Halliday, Peixoto, Salinas, Mendall
	<b>Mayor:</b>	Sweeney
<b>NOES:</b>	<b>Council Members:</b>	None
<b>ABSENT:</b>	<b>Council Members:</b>	None
<b>ABSTAIN:</b>	<b>Council Members:</b>	None

The summary of the Ordinance was published in the Hayward Daily Review on Saturday, November 24, 2012. Adoption at this time is therefore appropriate.

*Prepared and Recommended by:* Miriam Lens, City Clerk

Approved by:



---

Fran David, City Manager

Attachments:

Attachment I Summary of Ordinance Published on 11/24/12

**PUBLIC NOTICE OF AN INTRODUCTION OF ORDINANCE  
BY THE CITY COUNCIL OF THE CITY OF HAYWARD**

AN ORDINANCE AMENDING CHAPTER 11, ARTICLE 2 OF THE  
HAYWARD MUNICIPAL CODE RELATING TO RESPONSIBILITY  
FOR PAYMENT OF WATER CHARGES AND THE COLLECTION  
OF DELINQUENT CHARGES FOR WATER SERVICE

THE CITY COUNCIL OF THE CITY OF HAYWARD DOES ORDAIN AS FOLLOWS:

Section 1. Upon the adoption of this ordinance, Article 11, Chapter 2, Section 11-2.42 of the Hayward Municipal Code, relating to the responsibility of payment for water service, is hereby enacted to read as follows:

**SECTION 11-2.42 PERSONS RESPONSIBLE FOR PAYMENT.**

Section 2. Upon the adoption of this ordinance, Article 11, Chapter 2, Sections 11-2.48 through 11-2.52 of the Hayward Municipal Code, relating to the collection of delinquent charges for water service, is hereby enacted to read as follows:

**SECTION 11-2.48 COLLECTION OF DELINQUENT WATER CHARGES ON TAX ROLL.**

**SECTION 11-2.49 ADMINISTRATIVE HEARING PROCESS.**

**SECTION 11-2.50 ACCOUNT AND REPORT OF DELINQUENT CHARGES.**

**SECTION 11-2.51 NOTICE OF REPORT.**

**SECTION 11-2.52 REPORT BY THE DIRECTOR OF FINANCE.**

Section 3. Severance. Should any part of this ordinance be declared by a final decision by a court or tribunal of competent jurisdiction to be unconstitutional, invalid, or beyond the authority of the City, such decision shall not affect the validity of the remainder of this ordinance, which shall continue in full force and effect, provided that the remainder of the ordinance absent the unexcised portion, can be reasonably interpreted to give effect to the intentions of the City Council.

Section 4. Effective Date. In accordance with the provisions of Section 620 of the City Charter this ordinance shall become effective 30 days from and after the date of its adoption.

Introduced at the special meeting of the Hayward City Council held November 13, 2012, the above-entitled Ordinance was introduced by Council Member Mendall.

This ordinance will be considered for adoption at the special meeting of the Hayward City Council, to be held on November 27, 2012, at 7:00 p.m., in the Council Chambers, 777 B Street, Hayward, California. The full text of this Ordinance is available for examination by the public in the Office of the City Clerk.

Dated: November 24, 2012  
Miriam Lens, City Clerk  
City of Hayward

**DATE:** November 27, 2012

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

**FROM:** Director of Finance

**SUBJECT:** FY 2012 Annual Investment Review, Adoption of the FY 2013 Statement of Investment Policy and Delegation of Investment Authority

### **RECOMMENDATION**

That the Council and Board Members adopt the attached three resolutions: (1) accepting the Annual Investment Report; (2) reaffirming the updated Statement of Investment Policy; and (3) extending the delegation of investment authority to the Director of Finance.

### **BACKGROUND**

The City's Statement of Investment Policy requires that staff prepares an annual report on the City's investment program and investment activity, and submits 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 an update to the Investment Policy to bring it in line with current statutes and to basically create a more understandable document – as described in more detail later in this report.

### **DISCUSSION**

#### Economic Outlook

The Federal Reserve Board's Federal Open Market Committee (FOMC) released an updated economic statement on October 24, 2012. Information received since the Federal Open Market Committee met in September 2012, as illustrated in this statement excerpt, indicates that economic growth is expanding at a moderate pace in recent months.

“Growth in employment has been slow, and the unemployment rate remains elevated. Household spending has advanced a bit more quickly, but growth in business fixed investment has slowed. The housing sector has shown some further signs of improvement, albeit from a depressed level. Inflation recently picked up somewhat,

reflecting higher energy prices. Longer-term inflation expectations have remained stable.”

This forecast impacts the City of Hayward, most visibly through the City’s property tax and sales tax revenues. While we are beginning to see improvement, both of these critical revenue sources have been slow to recover and the City continues to face a 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 2012 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’s investment portfolio during the preceding fiscal year (July 1, 2011 – June 30, 2012), 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 2012 unaudited portfolio interest totaled \$742,000, which was a decline of approximately 51% or \$772,000 from the previous year. FY 2012 annual portfolio yield was 0.46%, which was a decline of approximately 42% from the previous year. Besides the reduction in interest rates, the City’s interest bearing assets dropped by 3% compared to last year. FY 2012 average monthly cash available for investment was \$162 million. Available cash for investment will fluctuate due to the composition of the pooled cash portfolio and the need to expend funds for City operations.

The dramatic reduction in interest earnings is largely a reflection of the market decline and the fact that the majority of the City’s portfolio is invested with the Local Agency Investment Fund (LAIF) – a liquid, short-term vehicle whose earnings are currently at .34%. The City has used LAIF to

hold a majority of its portfolio for the past several years due to the fact that it is a safe and liquid investment vehicle. However, LAIF interest rates have consistently declined due to the market conditions.

**Table 1**

<b>Annual Average Comparison</b>					
<i>(\$ in 000's)</i>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
Annual Portfolio Yield	4.59%	3.06%	1.14%	0.79%	0.46%
Annual Accrued Interest	\$8,434	\$5,410	\$2,249	\$1,514	\$742
Avg Annual Portfolio Balance	\$184,095	\$180,424	\$162,425	\$169,702	\$162,036

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 current seven-member IAC is comprised of the Director of Finance, who chairs the quarterly meetings for the Committee; the Assistant City Manager; the City Attorney (represented by Assistant City Attorney Conneely); two department directors appointed by the City Manager (represented by Maintenance Services Director McGrath and one vacancy); and two non-City of Hayward members – one from California State University – East Bay and one from the financial community (both vacant). The changes to the Investment Policy propose a reduction in membership to five members.

FY 2013 Statement of Investment Policy

The Statement of Investment Policy was reviewed by the Investment Advisory Committee on September 27, 2012, and by the Council Budget & Finance Committee on September 28, 2012, and again by the IAC on October 11, 2012. 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 has been redrafted to create a more streamlined document and to conform to existing statute. Key changes include:

- ❑ Goal Yield (Policy page 4). Eliminates the Goal Yield of .50% and replaces with a performance benchmark more closely linked to market performance. The former flat Goal Yield of .50% is not realistic given current market conditions. The City will now measure its portfolio performance against the 1-3 year U.S. Treasury Index – which will better account for market fluctuations.
- ❑ IAC Membership (Policy page 5). The former committee composition totaled seven members. The new language offers a membership minimum of five members – reducing the requirement for two City department directors to one, and reducing the requirement for non-City membership to a minimum of one instead of two. The new policy language allows for “a minimum of one non-City employee that possesses financial skills chosen by the City

Manager.” Former language included membership consisting of a representative of specifically from California State University, East Bay (Cal State) and a member of the financial community. It has been difficult to maintain a representative from Cal State and a representative from the financial community could present a conflict of interest. Broadening the requirement to a minimum of an outside individual that possesses financial skills will hopefully provide more committee candidates.

- Reporting Timeframe (Policy page 6). This section changes the annual reporting requirement established by the City’s Policy from ninety days following the end of the fiscal year to 120 days for the Director of Finance to present a comprehensive annual report to the Investment Advisory Committee. This adjustment is more in keeping with the availability of year-end reporting data and conforms to reporting standards recommended by the Government Finance Officers Association (GFOA). While current statute requires an annual report, it does not establish a specific timeframe for completion.
- Ethics and Conflict of Interest Statement (Policy page 5). This is a new statement and conforms to current best practice standards suggested by the GFOA.
- Investment Maturity and limits (Policy pages 7-11). Investment instruments have been updated to conform to current government code for maximum maturity (five years is the maximum maturity length per statute) and for investment and per issuer limits. Below is a summary of the proposed authorized investment instruments.

**Table 2**

<b>INVESTMENT INSTRUMENT SUMMARY</b>				
<b>Security Type</b>	<b>Maximum Maturity</b>	<b>Min Credit Quality</b>	<b>Authorized Investment Limit</b>	<b>Per Issuer Limit</b>
A. US Treasury Notes/Bills	5 Years	None	100%	100%
A. US Agencies–Fully Backed	5 Years	None	100%	100%
B. US Agencies–Sponsored	5 Years	None	100%	40%
C. Banker’s Acceptance (BA)	180 days	Prime	40%	5%
D. Commercial Paper	270 days	Prime	25%	5%
E. Negotiable Certificates of Deposit	5 Years	“A”	30%	5%
F. Repurchase Agreements	1 Year	None	25%	20%
G. Medium Term Notes (MTN)	5 Years	“A”	30%	5%
H. Money Market Fund	N/A	AAAm	20%	10%
I. Alameda County Investment Pool	None	None	10%	10%
J. LAIF	None	None	\$50M per account	N/A
K. Collateralized Certificates of Deposit	5 Years	None	25%	20%
L. Municipal Bonds	5 Years	“A”	20%	5%

### Portfolio Management Strategy

Following the last Policy update in October 2011, staff engaged in a comprehensive proposal review process and selected an external portfolio management firm, The PFM Group. The Director of Finance has authorized PFM to actively manage about \$42 million of the City's current approximate \$177 million portfolio effective in July 2012 (FY 2013). The balance of the City's portfolio currently remains on deposit with LAIF. Because the use of a portfolio management firm is new to the City, staff is transferring responsibility to PFM in small steps to ensure that the modest cost of the firm does not exceed interest earnings derived from PFM-managed holdings. Over the next year, staff will consider increasing the amount of funds PFM actively manages.

The strategy employed by PFM is to rebalance this portion of the portfolio for longer-term investment in U.S. Treasuries and Federal Agencies. PFM is actively managing investment funds to capture the best relative value.

### Annual Adoption of Delegation of Investment Authority

The City Council annually affirms the delegation of investment authority in the attached resolutions (Attachments I - IV), authorizing the Director of Finance to conduct investment activities for the City, Hayward Successor Redevelopment Agency (as a result of the dissolution of redevelopment agencies earlier this year), 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 2012 totaled \$772,000, which was a decline of approximately 49% or \$742,000 from the previous year. While this loss is market driven, 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 Statement of Investment Policy was reviewed by the Investment Advisory Committee on September 27, 2012, and by the Council Budget & Finance Committee on September 28, 2012, and again by the IAC on October 11, 2012. Both bodies approved the policy as amended and recommend approval by the City Council.

## **SCHEDULE**

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

*Prepared and Recommended by:* Tracy Vesely, Director of Finance

Approved by:



---

Fran David, City Manager

Attachments:

- I: Resolution: City – Accepting the Annual Report, Reaffirming Statement of Investment Policy, and Renewing Delegation of Authority to Make Investments
- II: Resolution: Housing Authority – Accepting the Annual Report, Reaffirming Statement of Investment Policy, and Renewing Delegation of Authority to Make Investments
- III: Resolution: Hayward Successor Redevelopment Agency - Accepting the Annual Report, Reaffirming Statement of Investment Policy, and Renewing Delegation of Authority to Make Investments
- IV: Resolution: ffHayward Public Financing Authority – Accepting the Annual Report, Affirming Statement of Investment Policy, and Renewing Delegation of Authority to Make Investments
- V: FY 2012 Annual Investment Review
- VI: FY 2013 Statement of Investment Policy

HAYWARD CITY COUNCIL

RESOLUTION NO. 12 -

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. 11-164, dated October 18, 2011, 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 2012 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 2013 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 November 27, 2012

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. 12-

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 11-01, dated October 18, 2011, 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 2012 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 FY2013 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 November 27, 2012.

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

RESOLUTION NO. RSA- 12-

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF HAYWARD, ACTING AS THE GOVERNING BOARD FOR THE SUCCESSOR AGENCY OF THE REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD, ACCEPTING THE ANNUAL REPORT ON INVESTMENT PROGRAM AND ACTIVITY FOR THE REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD AND THE SUCCESSOR AGENCY THERETO, 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 11-17 dated October 18, 2011, the Redevelopment Agency of the City of Hayward adopted a Statement of Investment Policy for the RDA for the City of Hayward; and

WHEREAS, pursuant to legislation enacted by the State legislature, the Redevelopment Agency was dissolved effective February, 2012; and

WHEREAS, the Director of Finance has submitted the annual report to the City Council of the City of Hayward, acting as the governing board for the Successor Agency of the Redevelopment Agency of the City of Hayward, consistent 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, acting as the governing body of the Successor Agency for the Redevelopment Agency of the City of Hayward, that the report entitled "FY 2012 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 FY2013 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 Successor Agency for 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.

HAYWARD, CALIFORNIA November 27, 2012

ADOPTED BY THE FOLLOWING VOTE:

AYES: BOARD MEMBERS:  
CHAIR:

NOES: BOARD MEMBERS:

ABSTAIN: BOARD MEMBERS:

ABSENT: BOARD MEMBERS:

ATTEST: \_\_\_\_\_  
Secretary of the Successor Agency  
of the City of Hayward

HAYWARD PUBLIC FINANCING AUTHORITY

RESOLUTION NO. 12 -

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

WHEREAS, by Resolution No. HPFA 11-01, dated October 18, 2011, the Agency Members adopted a Statement of Investment Policy for the Hayward Public Financing Authority for the City of Hayward; and

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

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Hayward Public Financing Authority that the report entitled "FY 2012 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 FY 2013 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 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 November 27, 2012

ADOPTED BY THE FOLLOWING VOTE:

AYES: BOARD MEMBERS:  
MAYOR:

NOES: BOARD MEMBERS:

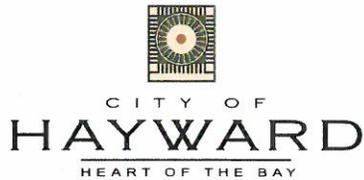
ABSTAIN: BOARD MEMBERS:

ABSENT: BOARD MEMBERS:

ATTEST: \_\_\_\_\_  
Secretary of the Hayward  
Public Financing Authority

APPROVED AS TO FORM:

\_\_\_\_\_  
General Counsel of the Hayward  
Public Financing Authority



## FY 2012 Annual Investment Review

### Summary

*The annual review provides an overview of FY 2012's investment activities.*



The annual review is provided to the City Council as a supplement to monthly and quarterly 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 2012—Year In Review

#### Annual Average Comparison

(\$ in 000's)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Annual Portfolio Yield	4.59%	3.06%	1.14%	0.79%	0.46%
Annual Accrued Interest	\$8,434	\$5,410	\$2,249	\$1,514	\$742
Avg Annual Portfolio Balance	\$184,095	\$180,424	\$162,425	\$169,702	\$162,036

FY 2012 unaudited portfolio interest totaled \$742 thousand, which was a decline of approximately 49% or \$772 thousand from the previous year. Rates available for investment in FY 2012 were extremely low and the portfolio balance has reduced as well. FY 2012 annual portfolio yield was 0.46%, which was a decline of approximately 42% (4200 basis points) from the previous year. For FY 2012, average monthly cash available for investment was \$162 million, a decline of approximately 4.7% (\$8 million) from the previous year.

### FY 2012 Overview

- **\$0.742 million**—unaudited annual interest income.
- **0.46%**—average annual yield.
- **\$162 million**—average monthly cash available for investment.

#### Inside:

Future Strategy	2
Portfolio Yield	2
Cash & Interest Earnings	3
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Average Liquidity	5
Fair Market Value	5
Portfolio Make-Up & Credit Worthiness	6
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Implemented Policy Changes	8
Recommended Policy Changes	8



## 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 continue to be safety, liquidity and yield. The investment strategy going into FY 2013 is to selectively extend maturities to take advantage of interest rates and to evaluate investment in LAIF. In addition, the City has employed the services of a portfolio management firm, The PFM Group effective July 2012 to assist the City in more actively managing and re-balancing its portfolio. The financial market has yet to be reviewed thoroughly before beginning to invest into corporate notes.*

## Portfolio Yield

*For FY 2012, the portfolio earned an average yield of **0.46%**.*

In FY 2012, 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 42% ( 4200 basis points).

Most of the City's portfolio is held in LAIF (Local Agency Investment Fund) accounts. These are safe, liquid, and relatively low yielding. However, given current market conditions, the LAIF rate is actually better than some other short-term investment vehicles. The City has not actively invested its portfolio for several years, and the few remaining securities we retained were called by the end of 2012.

Given market conditions, the placement of the City's portfolio in LAIF is a safe vehicle for the City's cash. However, the intent in 2013 is to rebalance the portfolio and begin investing in some longer-term holdings, which will result in increased yield. We will continue to retain a large portion of the portfolio in LAIF to manage the City's cash flow needs.

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.



*Yield is the percentage of annual return on investment.*

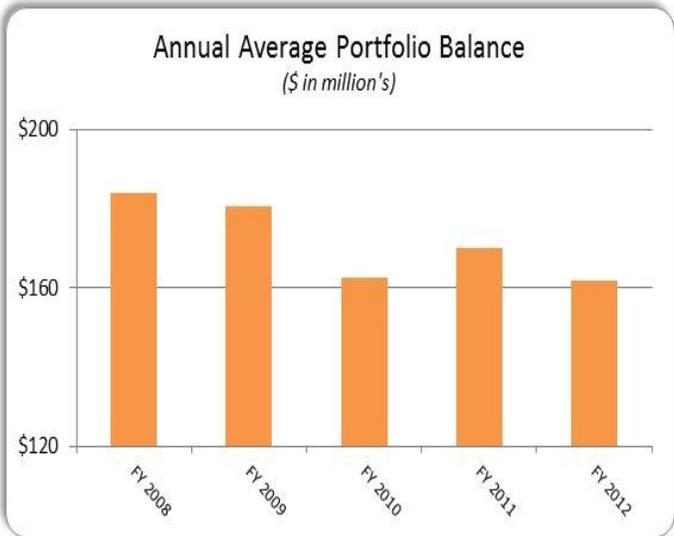
# Cash and Interest Earnings

## Cash Available for Investment

For FY 2012, the average monthly portfolio cash balance totaled **\$162** million, approximately 4.7% (\$8 million) less than the previous year. The highest portfolio balance was \$191,147,469 for the month of January 2012, and the lowest was \$133,107,176 for the month March 2012.

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

Cash fluctuates based on cash flow and use of fund balances for authorized expenses (such as capital projects).



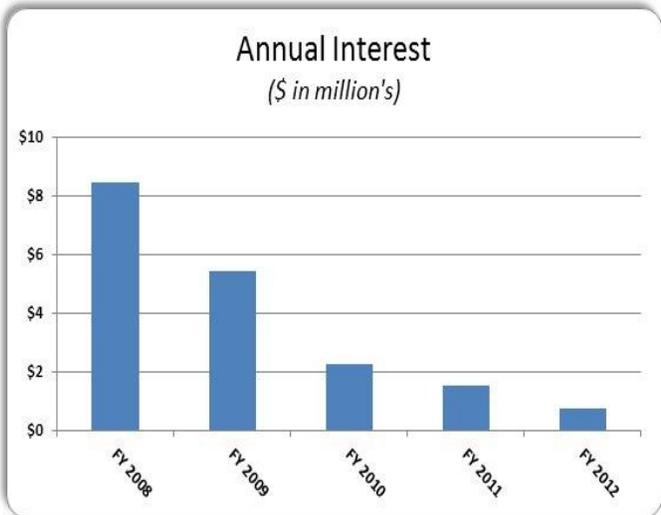
*Over the past five years, cash available for investment has averaged \$172 million, while annual interest has averaged \$3.7 million.*

## Interest Earnings

For FY 2012, unaudited interest income totaled **\$0.742** million, an approximately 51% (\$772 thousand) decline from the previous year.

The decline in interest earnings was due to low interest rates available for investment, due to the severe economic recession. The chart shows the change in annual interest income over the past five years.

Staff is working toward rebalancing the portfolio within the parameters of the Investment Policy with hopes that interest earnings will begin to modestly increase.



## Monthly Maturity Comparison

*Same day investments averaged .38% by the end of FY 2012*

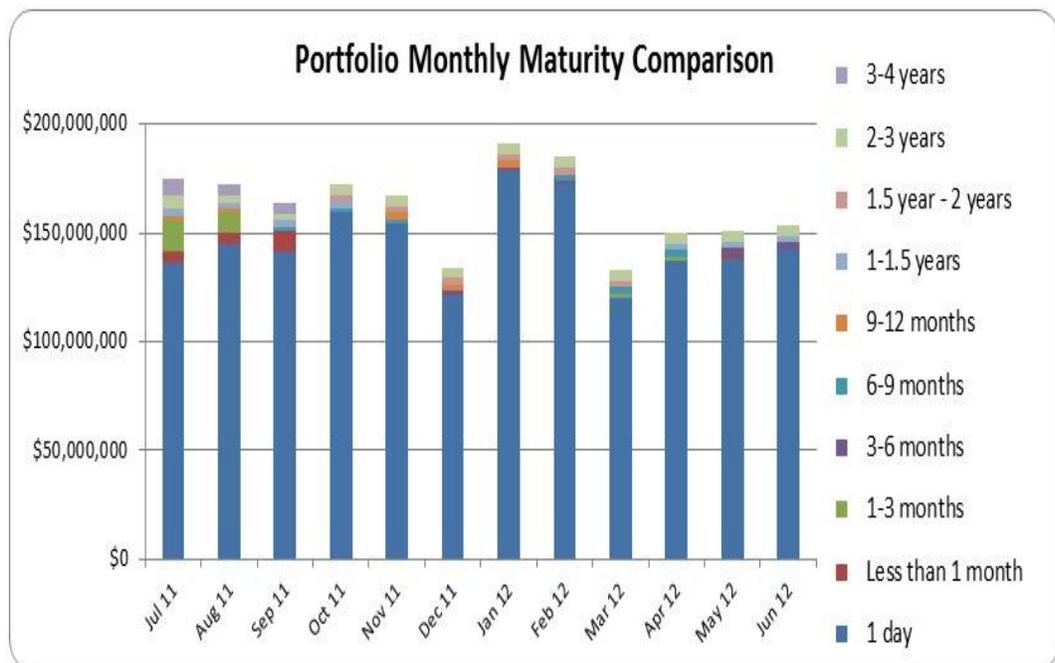
LAIF offers the City overnight liquidity at rates that are equivalent to other short-term investment types, with the added benefit of daily withdrawal being available. The City has three active LAIF accounts.: City of Hayward, Hayward Housing Authority, Hayward Public Financing Authority. The City’s LAIF account for the former Redevelopment Agency has been closed.

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

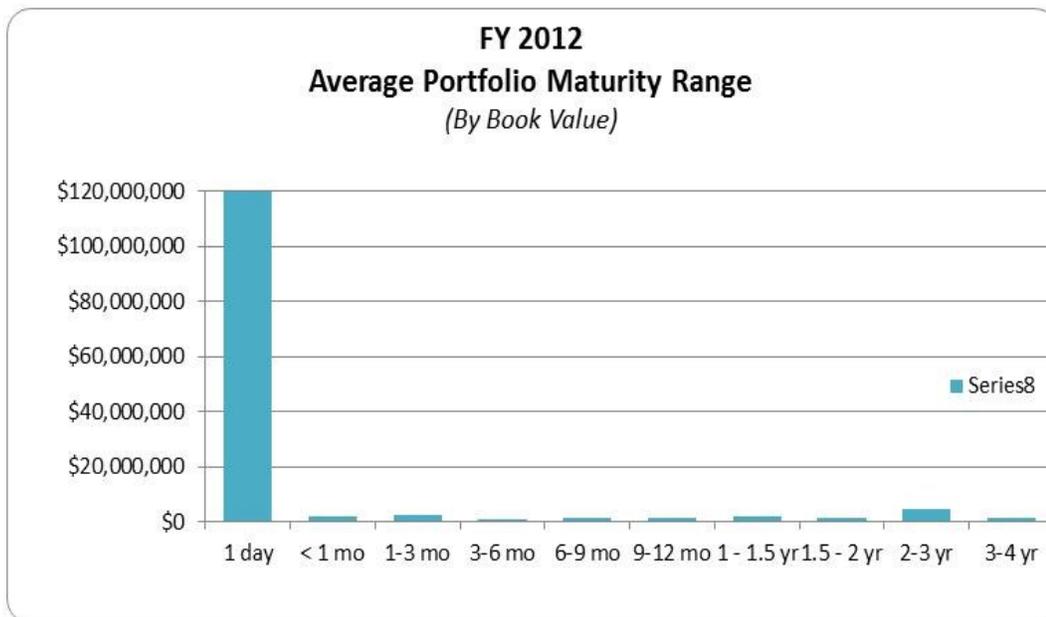
*As rates declined, majority of investments are still in LAIF.*

The chart shows the average maturity periods for FY 2012, and demonstrates that 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 that were called and retained in LAIF.

Over the next year, staff will work toward re-balancing the investment holdings of the portfolio, laddering between a larger number of maturity ranges. The City's portfolio management company, The PFM Group will assist the City in managing and re-balancing the portfolio.



*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.*

## 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 2012, the unaudited fair market value shows a positive gain of **\$203,093**.

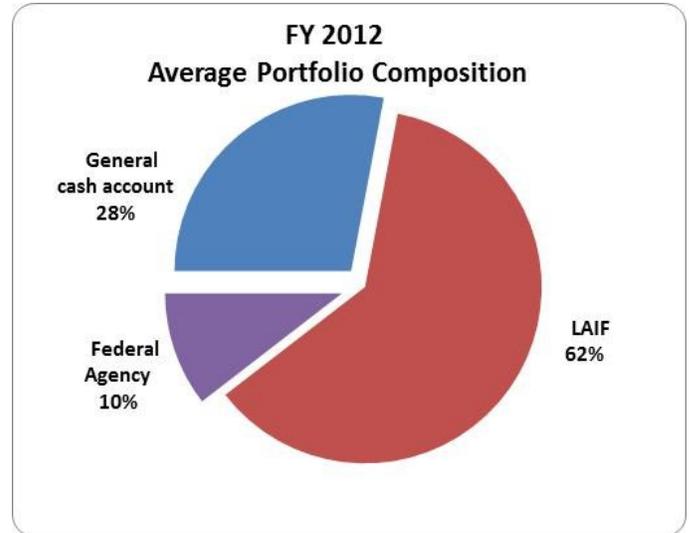
The value at maturity of all securities in the portfolio is not affected by this calculation. What is demonstrated is the movement in bond prices associated with changes in bond market yields. Since bond yields and bond prices move in opposite directions, any overall decrease in market value interest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

## Portfolio Make-Up



*Portfolio composition describes the*

This chart shows the average composition of a monthly FY 2012 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 FY2012 when rates were low.



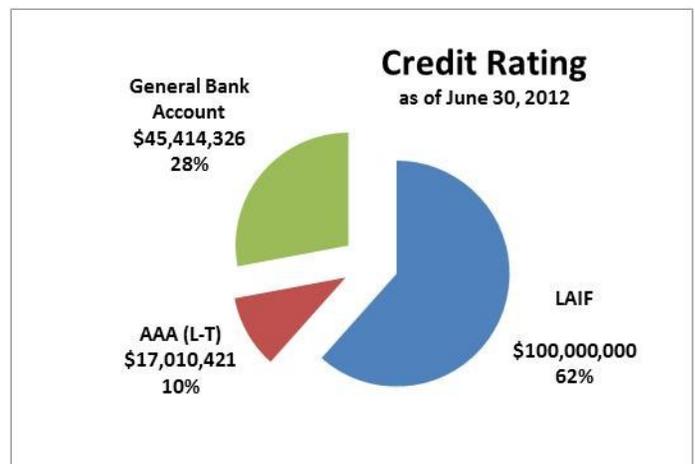
*A credit rating assesses the credit worthiness of a corporation. Credit ratings are calculated from financial history and current assets and liabilities. Typically, a credit rating tells an investor the probability of the subject being able to pay back a bond.*

## Credit Worthiness

*Security credit ratings are monitored monthly.*

The graph presents the portfolio investments' by credit ratings as of June 30, 2012. 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 FY 2012 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, 2012.



## Oversight

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

The purpose of Investment Advisory Committee 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 Director of Finance (Director Vesely) chairs the quarterly meetings.

For FY 2012, the Committee consisted of the Assistant City Manager, the City Attorney (represented by an Assistant City Attorney), two department heads appointed by the City Manager, and one member each specifically from California State University East Bay and from the banking community (both vacant for the duration of the year).



*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 2012 CAFR will be available in December 2012 and will contain the FY 2012 disclosure.



*Independent auditors review the Investment*

## FY 2012 Implemented 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 Director of Finance, 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.

The following are the policy changes that were implemented in FY 2012 as authorized by City Council in FY 2012:

1. Updated language to Section IV (Delegation of Authority) to allow the Finance Director, upon authorization by the City Council, to engage an investment management firm to assist with the City's portfolio investments.
2. Authorization for the Finance Director to create a Local Agency Investment Fund (LAIF) account for the Hayward Public Financing Authority.

## FY 2013 Recommended Policy Changes

Goal Yield: Eliminates the Goal Yield of .50% and replaces with a performance benchmark more closely linked to market performance the 1-3 year U.S. Treasury Index .

IAC Membership: The former committee composition totaled seven members. New language offers a membership minimum of five – reducing the requirement for two City department directors to one, and reducing the requirement for non-City membership to a minimum of one instead of two.

Reporting Timeframe (Policy page 6). In conformance with GFOA best practices, this section changes the annual reporting requirement from 90 days following the end of the fiscal year to 120 days.

Ethics and Conflict of Interest Statement This is a new statement and conforms to current best practice standards suggested by the GFOA.

Investment Maturity and limits: Investment instruments have been updated to conform to current government code for maximum maturity (5 years is the maximum maturity length per statute) and for investment and per issuer limits.

## Attachments



1. FY 2012 Maturity Report
2. FY 2012 Sale/Call Report



CITY OF  
**HAYWARD**  
HEART OF THE BAY

**City of Hayward  
Maturity Report  
Sorted by Maturity Date  
Received or due during July 1, 2011 - June 30, 2012**

CUSIP	Investment #	Fund	Sec. Type	Issuer	Par Value	Maturity Date	Purchase Date	Rate at Maturity	Book Value at Maturity	Interest	Maturity Proceeds	Net Income
3133XRRU6	498	950	FAC	FHLB	5,000,000.00	07/01/2011	04/22/2010	3.625	5,177,650.00	89,618.06	5,089,618.06	-88,031.94
3133XGDD3	473	950	FAC	FHLB	5,000,000.00	08/19/2011	02/04/2009	5.375	5,418,700.00	134,375.00	5,134,375.00	-284,325.00
3133XRY46	500	950	FAC	FHLB	5,000,000.00	09/09/2011	04/22/2010	3.750	5,205,650.00	93,750.00	5,093,750.00	-111,900.00
31331Y3P3	501	950	FAC	FFCB	5,000,000.00	10/03/2011	04/22/2010	3.500	5,199,000.00	87,500.00	5,087,500.00	-111,500.00
31331GDC0	472	950	FAC	FFCB	3,000,000.00	10/14/2011	10/14/2008	3.600	3,000,000.00	54,000.00	3,054,000.00	54,000.00
31331SVB6	439	950	FAC	FFCB	1,170,000.00	10/25/2011	02/08/2008	4.500	1,223,223.30	26,325.00	1,196,325.00	-26,898.30
31331GYP8	485	950	FAC	FFCB	2,000,000.00	06/18/2012	06/24/2009	2.125	2,002,580.00	21,250.00	2,021,250.00	18,670.00
<b>Total Maturities</b>					<b>26,170,000.00</b>				<b>27,226,803.30</b>	<b>506,818.06</b>	<b>26,676,818.06</b>	<b>-549,985.24</b>

**City of Hayward  
Sales/Call Report  
Sorted by Investment Number - Fund  
July 1, 2011 - June 30, 2012**

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
<b>494</b>												
3133XWM22	494	950	FHLB MC1	01/22/2010	07/22/2011 07/22/2013	3,000,000.00	2.200	3,000,000.00	3,000,000.00	33,000.00	3,033,000.00 Call	33,000.00
<b>Subtotal</b>						<b>3,000,000.00</b>		<b>3,000,000.00</b>	<b>3,000,000.00</b>	<b>33,000.00</b>	<b>3,033,000.00</b>	<b>33,000.00</b>
<b>506</b>												
31331JZ48	506	950	FFCB MC1	11/08/2010	08/18/2011 11/04/2014	3,000,000.00	1.230	3,000,000.00	3,000,000.00	10,660.00	3,010,660.00 Call	10,660.00
<b>Subtotal</b>						<b>3,000,000.00</b>		<b>3,000,000.00</b>	<b>3,000,000.00</b>	<b>10,660.00</b>	<b>3,010,660.00</b>	<b>10,660.00</b>
<b>507</b>												
313371E28	507	950	FHLB MC1	11/08/2010	08/16/2011 04/25/2014	3,000,000.00	1.050	3,000,000.00	3,000,000.00	9,712.50	3,009,712.50 Call	9,712.50
<b>Subtotal</b>						<b>3,000,000.00</b>		<b>3,000,000.00</b>	<b>3,000,000.00</b>	<b>9,712.50</b>	<b>3,009,712.50</b>	<b>9,712.50</b>
<b>Total Sales</b>						<b>9,000,000.00</b>		<b>9,000,000.00</b>	<b>9,000,000.00</b>	<b>53,372.50</b>	<b>9,053,372.50</b>	<b>53,372.50</b>



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# **FY 2013 Statement of Investment Policy**

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Finance Department  
Director of Finance, Tracy Vesely  
*Policy Recommended Changes: November 27, 2012*  
*Policy last amended: October 11, 2011*

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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 Statement of Investment 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, Housing Finance Agency Funds, Successor Hayward Housing Authority funds, and Hayward Redevelopment Agency Successor Agency funds. The Statement of 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 Statement of Investment Policy: Deferred Compensation Fund assets and 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. Statement of Objectives

It is the policy of the City of Hayward to invest public funds not required for immediate day-to-day operations in safe and liquid investments with maturities under five years, in conformance with the California state statutes governing the investment of public funds. Investments are intended to achieve a reasonable rate of return while minimizing the potential for capital losses arising from market changes or issuer default.

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.
3. **Yield** – The City may establish a performance benchmark based on current investment objectives and constraints. 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 policy constraints and cash flow requirements. The City should not take undue risk to obtain above-market rates of return.
4. **Diversification** – The City's investment portfolio will be diversified to avoid 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 Director of Finance shall seek to enhance total portfolio return by means of active portfolio management.

### III. Use of State Investment Guidelines

Government Code Sections 53601, 53607, 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

The responsibility for conducting the City's investment program is hereby delegated to the Director of Finance, who has established written procedures for the operation of the investment program, consistent with this Statement of Investment Policy. 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 Statement of 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). The IAC shall, at minimum, consist of the Assistant City Manager, Director of Finance, City Attorney, one department head, and a minimum of one non-City employee that possesses financial skills to be chosen by the City Manager.

The IAC shall meet at least quarterly for the purpose of overseeing the implementation of the City's investment program and assuring it is consistent with the Statement of Investment Policy as approved by the Council. The committee shall include in its discussions such topics as economic outlook, portfolio diversification and maturity structure, potential risks to the City's funds, approval of authorized financial institutions, and the performance of the investment portfolio. Written investment procedures must be approved by the IAC.

## VI. Ethics and Conflict of Interest

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program or impair their ability to make impartial decisions.

All members of the City's IAC shall annually file Statements of Economic Interests (SEIs or Form 700) with the California Fair Political Practices Commission.

## VII. Investment Policy Adoption

The City's Statement of 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.

## VIII. Standard of Prudence

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. 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 standard of prudence to be used by investment officials shall be the "prudent investor standard," which states:

*"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.”*

Investment officers acting in accordance with written procedures and the Statement of 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 Policy.

## IX Reporting

The following investment activity reports will be completed.

### A. Monthly

The Director of Finance shall submit an investment summary to the City Manager, Investment Advisory Committee, City Council Budget & Finance Committee, and City Council. Monthly reports shall be distributed no later than 30 days following month end.

The investment summary will list investment transactions executed during the month, and will report key aspects of the investment portfolio, including the following information about each investment instrument: issuer, par amount, purchase price, sales price, realized gains and losses, maturity dates, credit ratings, and the percentage of the portfolio by each type of investment.

### B. Quarterly

Within 30 days of the end of each quarter, the Director of Finance shall submit a quarterly investment report to the City Manager, Investment Advisory Committee, City Council Budget & Finance Committee, and City Council.

The quarterly report shall include all components of the City's monthly report, highlight key aspects of information contained in the investment reports, 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; and compare the portfolio performance to that of the City's established performance benchmark.

### C. Annual

Within 120 days of the fiscal year end, the Director of Finance 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 a performance summary, 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 approve the Statement of Investment Policy at a public meeting of the City Council.

**X. Investment Instruments**

A summary and description of authorized investment instruments is below.

<b>INVESTMENT INSTRUMENT SUMMARY</b>				
<b>Security Type</b>	<b>Maximum Maturity</b>	<b>Min Credit Quality</b>	<b>Authorized Investment Limit</b>	<b>Per Issuer Limit</b>
A. US Treasury Notes/Bills	5 Years	None	100%	100%
A. US Agencies–Fully Backed	5 Years	None	100%	100%
B. US Agencies–Sponsored	5 Years	None	100%	40%
C. Banker’s Acceptance (BA)	180 days	Prime	40%	5%
D. Commercial Paper	270 days	Prime	25%	5%
E. Negotiable Certificates of Deposit	5 Years	“A”	30%	5%
F. Repurchase Agreements	1 Year	None	25%	20%
G. Medium Term Notes (MTN)	5 Years	“A”	30%	5%
H. Money Market Fund	N/A	AAAm	20%	10%
I. Alameda County Investment Pool	None	None	10%	10%
J. LAIF	None	None	\$50M per account	N/A
K. Collateralized Certificates of Deposit	5 Years	None	25%	20%
L. Municipal Bonds	5 Years	“A”	20%	5%

The following sections describe individual investment types. The sections specify a percentage limitation for a particular category of investment. That percentage is applied on the date of purchase. A later increase in a percentage resulting from a change in values or assets shall not constitute a violation of the Policy restriction.

**Notwithstanding anything herein to the contrary, with the exception of the U.S. Treasury, federal agency institutions, and government sponsored enterprises no more than 5% of the City’s portfolio may be invested in securities issued by any one corporate, financial, or municipal issuer.**

The following sections also specify minimum ratings criteria for particular investment categories. That minimum rating criteria is applied on the date of purchase. The City

may from time to time be invested in a security whose rating is downgraded. In the event a rating drops below the minimum allowed rating category for that given investment type, the securities shall be reviewed and a plan of action shall be recommended by the Finance Director or investment manager.

**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 with a final maturity not exceeding five years from the date of trade settlement.

CA Govt Code 53601(b)

**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 with a final maturity not exceeding five years from the date of trade settlement. There is no limit to the amount of the City's portfolio that may be invested in Federal Agency or GSE securities, except that the aggregate investment in federal agency mortgage-backed securities shall not exceed 20% of the City's total portfolio. Furthermore, the aggregate investment in any one federal agency or GSE issuer shall not exceed 40% of the City's total portfolio.

CA Govt Code 53601(f) and CA Govt Code 53601(o)

**C. Banker's Acceptances**, otherwise known as bills of exchange or time drafts, that are drawn on and accepted by a commercial bank with a final maturity not exceeding 180 days from the date of trade settlement, rated at least "A-1" or the equivalent by a nationally recognized statistical-rating organization (NRSRO). The aggregate investment in banker's acceptances shall not exceed 40% of the City's total portfolio.  
CA Govt Code 53601(g)

**D. Prime Commercial Paper** with the highest letter and numerical rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph 1 or paragraph 2 below:

(1) The entity meets the following criteria:

- is organized and operating in the United States as a general corporation;
- has total assets in excess of five hundred million dollars (\$500,000,000); and
- has debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.

(2) The entity meets the following criteria:

- is organized within the United States as a special purpose corporation, trust, or limited liability company;
- has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond; and

- has commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO.

Eligible commercial paper shall have a final maturity not exceeding 270 days from the date of trade settlement. The aggregate investment in Commercial Paper shall not exceed 25% of the City's total portfolio. Furthermore, the City may purchase no more than 10 percent of the outstanding commercial paper of any single issuer.

CA Govt Code 53601(h)

- 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 California Financial Code, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank with a final maturity not exceeding five years from the date of trade settlement. Deposits are limited to institutions which have long-term debt rating of at least "A" or the equivalent by a NRSRO. The aggregate investment in Negotiable Certificates of Deposit shall not exceed 30% of the City's total portfolio.

CA Govt Code 53601(i)

- F. Repurchase Agreements** with a final termination date not exceeding 360 days from the date of trade settlement collateralized solely by United States Treasury, federal agency, or United States government sponsored enterprises permitted by this Statement of Investment Policy. The purchased securities (the "collateral") shall have a minimum market value of 102% of the dollar value of the funds invested. The market value of the collateral securities shall be marked-to-the-market daily and the value shall be adjusted no less frequently than weekly. No substitution of collateral shall be allowed without the prior approval of the Finance Director. All collateral securing Repurchase Agreements must be delivered to the City's custodian bank or handled under a tri-party repurchase agreement. The City or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to Repurchase Agreement.

Approved Repurchase Agreement counterparties shall have a repurchase agreement counterparty credit rating of at least "A-1" or the equivalent and a long-term credit rating of at least "A" or the equivalent by a NRSRO. Repurchase agreement counterparties shall execute a City approved master repurchase agreement with the City. No more than 20% of the City's total portfolio shall be invested in repurchase agreements.

CA Govt Code 53601 (j)

**G. Medium-Term Notes** 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, with a final maturity not exceeding five years from the trade settlement, and rated at least “A” or the equivalent by a NRSRO at the time of purchase. The aggregate investment in medium-term notes shall not exceed 30% of the City’s total portfolio.

CA Govt Code 53601 (k)

**H. Money Market Funds.** Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.). To be eligible for investment pursuant to this subdivision these companies shall either:

- (1) attain the highest ranking letter or numerical rating provided by not less than two of the three largest nationally recognized statistical-rating organization, or
- (2) have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience managing money market mutual funds and with assets under management in excess of \$1,000,000,000.

The purchase price of shares shall not exceed 20% of the City’s total portfolio and shall not include any commission that the companies may charge. Furthermore, no more than 10% of the City’s total portfolio may be invested in any one money market fund.

CA Govt Code 53601 (l)

**I. Alameda County Investment Pool.** The City’s maximum investment in the Alameda County pool is limited to 10% of the City’s total aggregate portfolio.

CA Govt Code 53684

**J. State of California’s Local Agency Investment Fund (LAIF).** The City’s participation in LAIF shall conform to State Regulation. The City maintains a total of three LAIF investments and may invest up to \$50 million in each account. 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 appropriate information concerning LAIF’s current investment policies, practices and performance on file. The Finance Director shall also maintain files on LAIF’s requirements for participation, including, but not limited to, limitations on deposits or withdrawals and the composition of the portfolio.

CA Govt Code 16429.1

**K. Collateralized Certificates of Deposit** in FDIC-insured financial institutions located in California with a maximum maturity no longer than five years from the date of deposit. Deposits are limited to banks who have a long-term debt rating of at least “A” or the equivalent and a short-term debt rating of at least “A-1” or the equivalent by a NRSRO. The City may waive collateral for any portion of its deposit that is covered by federal deposit insurance.

Money shall not be deposited in any state or federal credit union if a member of the legislative body of the City, 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 City, 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.

The amount on 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. However, deposits in collateralized certificates of deposit shall not exceed 25% of the City's total portfolio, nor shall the City deposit more than 20% of its total portfolio in the collateralized certificates of deposit in any one bank.

CA Govt Code 53649

**L. Municipal Bonds** issued by the state of California and any local agency within the state, including bonds payable solely out of revenues from a revenue producing property owned, controlled, or operated by the state or any local agency, or by a department, board, agency or authority of the state or any local agency.

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.

The aggregate investment in municipal bonds may not exceed 20% of the City's total portfolio.

CA Govt Code 53601(c), CA Govt Code 53601(d), and CA Govt Code 53601(e)

## **XI. Prohibited Investments**

Investments not specifically approved by this Statement of Investment Policy are prohibited, including inverse floaters, range notes, mortgage derived interest-only strips, and securities that could result in zero interest accrual if held to maturity.

## XII. Credit Downgrade

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 a downgrade could result in a rate drop below acceptable levels, the Director of Finance will make and implement an informed decision on whether to sell or retain any security or deposit in the City's portfolio issued or held by such affected financial institution or depository. The Director of Finance 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 e-mail or fax.

If an investment advisor is used, the investment advisor will immediately notify the Director of Finance if a purchased security has been downgraded below accepted minimums specified herein, or if the security is placed on negative credit watch, where downgrade could result in a rate drop below acceptable levels 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.

## XIII. Maturity and Diversification

Maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled to permit the City to meet all projected obligations.

The City may not invest in a security that exceeds five years from the date of purchase unless City Council has granted express authority to make that investment no less than three months prior to the investment.

## XIV. 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, 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.
- **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 and security provisions, and delineate responsibilities of each party making and receiving wire transfers.

## **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.

If a third-party investment advisor is authorized to conduct investment transactions on the City's behalf, the investment advisor may use its own list of approved broker/dealers and financial institutions for investment purposes.

## XVI. 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 that jeopardizes the total capital position of the overall portfolio.

The Director of Finance 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.

A thorough investigation of any money market fund or investment pool, including LAIF and the Alameda County 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

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. A competitive bid process, utilizing financial institutions approved 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

If a third party investment advisor is authorized to conduct investment transactions on the City's behalf, the investment advisor may rely on its review process and use its own list of approved broker/dealers for investment purposes.

- 3. The Finance Director may 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 ensure that competent investment management is maintained and shall ensure 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.
- 4. In order to assist in identifying "qualified financial institutions," the Finance Director shall forward copies of the City's Statement of Investment Policy to those financial institutions with which the City is interested in doing business and require written acknowledgement of the policy.

## **XVII. 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 funds, since the purchased securities are not deliverable.

**Appendix A**

**Comparison and Interpretation of Credit Ratings<sup>1</sup>**

**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

<sup>1</sup> These are general credit rating guidelines and are for information only.

## Glossary

**BANKERS' ACCEPTANCE:** A letter of credit issued in a foreign trade transaction which allows exporters to receive payment prior to importation of their goods. Banks provide short-term financing to facilitate the transaction and may sell the obligation to a third party. Bankers' Acceptances are secured by the issuer of the bill, while the underlying goods also serve as collateral.

**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 PRICE:** The price at which a buyer offers to purchase a security from the seller.

**BOND:** A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate called a coupon payment. Bonds are used by companies, municipalities, states and the U.S. government to finance a variety of projects and operating activities.

**BROKER:** A broker aligns buyers and sellers of securities and receives a commission when a sale occurs. Brokers generally do not hold inventory or make a market for securities.

**CALIFORNIA LOCAL AGENCY OBLIGATIONS:** Bonds that are issued by a California 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.

**CD (CERTIFICATE OF DEPOSIT):** Time deposits issued by a bank, savings or federal credit union, or state-licensed branch of a foreign bank. Negotiable Certificates of Deposits rely on the credit rating of the issuing entity.

**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:** Short-term unsecured promissory note issued by a company or financial institution. Commercial paper is issued at a discount and matures at face

value. Usually a maximum maturity of 270 days, and given a short-term debt rating by one or more NRSROs

**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:** The annual rate of interest that a bond's issuer promises to pay the bondholder, expressed as a percentage of the bond's face value.

**CREDIT RISK:** Credit risk is the likelihood that an issuer will be unable to make scheduled payments of interest or 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, 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 or falling interest rates, but may pay lower yield than fixed rate notes.

**FUTURES:** Commodities, which are sold in the present time and are 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, Treasury, or bond payment. No principal is included in these types of securities.

**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 state and local government entities and certain non-profit organizations in California in which organization pools their funds for investment. LAIF 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 which includes provisions specific to the governmental agency that is signed by an authorized officer with each counterparty. A master agreement will often specify details to the nature of transactions, the relationship of the parties to the agreement, parameters pertaining to the ownership and custody of collateral, and remedies in the event of default by either party.

**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.

**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 (1-day to 1-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 or obligation, depending on the buyer or seller's position within the contract, to buy or to sell a specific amount of a specific security within a predetermined time period at a specified price. 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:** A 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 principal payments received from an obligation.

**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.

**REPURCHASE AGREEMENT (RP, Repo):** A contractual transaction between an investor and an issuing financial institution (bank or securities dealer). The investor exchanges cash for temporary ownership or control of collateral securities, with an agreement between the parties that on a future date, the financial institution will repurchase the securities.

**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.

**STATE OBLIGATIONS:** Registered treasury notes or bonds of the 50 United States, 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 50 United States.

**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.

**U.S. AGENCY OBLIGATIONS:** Federal agency or United States government-sponsored enterprise obligations (GSEs), 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 U.S. 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 3-month and 6-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 2- to 10-years are called Treasury Notes (T-notes), and pay interest semi-annually.

**Treasury Bonds:** All securities issued with initial maturities greater than 10-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.

**Income Yield** is obtained by dividing the current dollar income by the current market price for the security.

**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.