CITY OF HAYWARD
AGENDA REPORT

AGENDA DATE 11/27/01
AGENDA ITEM 2
WORK SESSION ITEM _____

TO: Mayor and City Council

FROM: Finance and Internal Services Director

SUBJECT: City Investment Policy and Program

RECOMMENDATION:

It is recommended that the City Council adopt the attached resolution pertaining to the City's Investment Policy and Program.

DISCUSSION:

The City's Statement of Investment Policy requires preparation of an annual report on the City's investment program and investment activity and that staff submit to the City Council any changes recommended in the City's Statement of Investment Policy. In addition, the state statutes that govern investment activity require the City Council to annually reaffirm the Statement of Investment Policy, regardless of whether any changes are recommended, and to annually confirm the delegation of investment authority. The attached resolution accepts the Annual Report on Investments, amends the Statement of Investment Policy as discussed above and reconfirms the delegation of investment authority.

As the Annual Investment Report is on file with the City Clerk's office, this agenda report highlights some of the key elements of the Annual Report.

Briefly, inflation remained well under control but economic activity slowed markedly in 2000-01. As a result of this slowdown, the unemployment rate increased to 4.5% by year-end. Increasingly aware that the economy was beginning to stall, the Federal Reserve took five separate actions to reduce interest rates in the second half of the year, cutting the federal funds rate by 275 basis points.

Market interest rates and the performance target rate mirrored this rate decline, with the performance target rate finishing the year at its lowest level since 1994. The effective yield of the portfolio declined during the latter half of the year as well, ending the year at 5.49% down from the year's peak rate of 6.45% which was recorded in October. The following comparative statistics display the result of the events of the year on the City's portfolio in comparison to previous years:

	1997-98	1998-99	1999-2000	2000-2001
		Thousands (000)		
Average portfolio value	$71,132	$76,879	$92,063	$119,950
Annual portfolio earnings	4,119	4,244	5,257	7,497
Annual portfolio yield	5.79%	5.52%	5.71%	6.25%

Available cash for investment rose in 2000-01, increasing by $27,887,000 or 30.3%. This compares to increases of 19.8% last year and 8.1% in 1998-99. Overall, this increase is a result of several years of vigorous growth in the local economy as well as balanced operating budgets and use of bond proceeds rather than current revenue to finance improvements. Portfolio yield increased to 6.25% and portfolio earnings increased approximately $2,240,000 or 42.6% over the prior year. The increase in earnings is attributable to the larger average portfolio value and consequent increase in funds available for investment, and to the high yields prevailing during the first three-quarters of the fiscal year.

When expressed as a percentage of the performance target (the average of the rates of thirteen and twenty six-week Treasury Bills plus 50 basis points), portfolio performance averaged 114.54% of the target for the year. This compares favorably to last year's 97.98%.

During 2000-01 Investment Policy, standards for quality continued to be exceeded. With all securities purchased rated higher than the minimum levels required by the Policy.

In other areas of performance, liquidity needs continue to be met as investments in L.A.I.F. are immediately accessible, and other investments mature during the year. The portfolio is diversified in accordance with Policy requirements and sound practice.

It should be noted that the yield and strategy discussions contained in the Annual Investment Report were written before September 11. As a consequence, they reflect an assessment of economic and market conditions then prevailing and express expectations of the future direction of the economy in a more or less "normal" economic environment. Subsequent to the tragedies at the World Trade Center and the Pentagon, the financial markets entered in the words of one analyst, "one of the most fateful weeks in U.S. financial market history." After the financial markets reopened stock prices plummeted on investor fears of further weakness in already slumping corporate profits and increasing odds of an all-out recession. In the Treasury market, yield fell for investments in the shorter maturities. In contrast, long-term Treasury yield rose more than 20 basis points reflecting investor concern over a rapidly shrinking budget surplus as Federal spending escalates for a military buildup, and for aid to stricken cities and businesses.

According to some analysts, it appears in retrospect that the terrorist attack could not have come at a worse time for the domestic economy. Even before the attack, consumer sentiment in the economy appeared to be weakening. Economists are now forecasting that the economy will shrink in the third quarter, rather than grow slightly, and that weakness may persist through the first half of 2002.

In view of these events and to discuss their impact upon the City's investment activities, the Investment Advisory Committee has determined that it will meet monthly until economic conditions

stabilize. Investments will focus upon safety and liquidity, so that we may appropriately respond to events, as the direction of the economy becomes clearer.

Revisions to Statement of Investment Policy

Attached for Council's review, amendment and affirmation is the Statement of Investment Policy. The Investment Advisory Committee recommends the following changes to the Policy. These changes are necessitated by revisions in the state statute governing the City's investment activity and are technical in nature. Specifically the recommended changes 1) increase the allowable maturity for investment in commercial paper from the existing 180 days, to 270 days; 2) decrease the allowable maturity for investment in bankers' acceptances from 270 days to 180 days; and 3) add a requirement to comply with reporting provisions incorporated in the statutes.

Status of Investment Advisory Committee Membership

2000-01 saw changes in the two non-City members of the Committee. In the first instance, Professor Richard Zock, the Committee representative from the University for a number of years retired from his faculty position and is leaving the Committee. Professor Zock has provided invaluable economic and financial expertise to the deliberations of the Committee, and his presence has been greatly appreciated by the other members of the Committee and by City staff. Professor Sam Basu, Associate Dean of the School of Business at CSUH has agreed to succeed Professor Zock and serve on the Committee. In the second instance, Mr. Steve Oki, Wells Fargo Bank, was appointed to fill the position representing the local financial community.

Prepared by:

Perry H. Carter for

Ralph Costa, Treasury Manager

Recommended by:

Perry H. Carter

Perry H. Carter, Director of Finance and Internal Service

Approved by:

Jesús Armas

Jesús Armas, City Manager

Attachments: Statement of Investment Policy
Draft Resolution

Attachment A

STATEMENT OF INVESTMENT POLICY

November 19, 1996

with amendments of October 28, 1997
with amendments of November __, 2001

EXHIBIT "A" TO RESOLUTION NO. 01-_____

CITY OF HAYWARD

STATEMENT OF INVESTMENT POLICY

I. Introduction

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment process. The initial step toward a prudent investment policy is to organize and formalize investment-related activities. Related activities which comprise good cash management include accurate cash projection, the expeditious collection of revenue, the control of disbursements, cost-effective banking relations, and short-term borrowing program which coordinates working capital requirements and investment opportunity. In concert with these requirements are the many facets of an appropriate and secure short-term investment program.

II. Scope

It is intended that this policy cover all short-term operating funds and investment activities under the direct authority of the City. These funds are described in the City's annual financial report and include:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Enterprise Funds
- Internal Service Funds
- Fiduciary Funds
- Redevelopment Agency Funds
- Housing Finance Agency Funds
- Industrial Development Authority Funds

This investment policy applies to all transactions involving the financial assets and related activity of the foregoing funds.

Specifically excluded from this policy are the assets and investments comprising the Deferred Compensation Fund. Investment of these monies are directed by each employee in accordance with the rules of the Deferred Compensation Plan of the City.

Also excluded are employer and employee deposits in the PERS Fund; and employer and employee deposits in the PARS Fund.

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.

III. Objectives

A. Safety of a 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 be from securities defaults or erosion of market value.

B. Investment decisions should not incur unreasonable investment risks in order to obtain current investment income.

C. The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which 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.

D. 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.

E. The investment portfolio shall be managed with the objective of regularly exceeding by 50 basis points, the average of three-month and six-month

U.S. Treasury Bill rates for the equivalent period. These indices are considered benchmarks for riskless investment transactions and therefore comprise a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles.

F. The City's investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks associated with concentrating investments in specific security types or in individual financial institutions.

G. 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. The prohibition of speculative investments precludes pursuit of gain or profit through unusual risk and precludes investments primarily directed at gains or profits from conjectural fluctuations in market prices. However, as long as the original investments can be justified by their ordinary earning power, trading in response to changes in market value or market direction is a requirement of active portfolio management.

H. The City adheres to the guidance provided by the prudent investor standard which obligates a fiduciary to ensure that investments shall be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

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

IV. Delegation of Authority

In accordance with Section 53607 of the California Government Code, the responsibility for conducting the City's investment program is delegated to the Director of Finance, who has established written procedures for the operation of

the investment program, consistent with this investment policy, which also govern delegation of authority for all investment activities.

V. Investment Advisory Committee

The City Manager will appoint an investment advisory committee for the purpose of overseeing the implementation of the City's investment program and assuring it is consistent with the investment policy as approved by the Council. The advisory committee shall consist of the Assistant City Manager, the City Attorney, a representative of California State University at Hayward, a member of the financial community, and two department heads chosen by the City Manager.

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

VI. Reporting: Interim and Annual

Monthly

Within 30 days of the end of each month the Director of Finance shall submit a monthly investment report to the City Manager and the City Council and shall provide copies to the Chairman and Members of the Investment Advisory Committee. Graphs, charts or schedules of the monthly report shall itemize the month's investment purchases, sales and maturities and indicate their effect on portfolio value, both individually and by investment category; itemize all investments and deposits in the portfolio by investment or deposit category, providing essential identifying characteristics for each investment or deposit; indicate the percentage of the portfolio represented by each investment and by each investment category; show all par values, market values and costs at time of purchase, together with each item's coupon or discount rate and current earning rate; show the average earning rate for the portfolio together with daily earnings and monthly earnings by item, by category and in total; indicate distribution of the portfolio by maturity category
and from 0-29 days to two to four years; and provide other relevant detail to accomplish exemplary disclosure of investment activity and portfolio status.

The text of the monthly report shall highlight key aspects of information contained in investment report schedules; inform readers of economic conditions affecting

the portfolio, recent investment performance and future investment strategy; disclose any perceived threats to portfolio quality, security or liquidity; compare the average portfolio investment yield with the portfolio target yield defined in Section III E above; incorporate by reference the most recent report received by the City from the State of California Local Agency Investment Fund (LAIF) detailing the investment types, issuers, maturity dates, par values and investment amounts comprising the pooled monies held by the state; and provide information as to the source of the market valuation data provided in the report. As use of the report discloses ways in which communication can be improved, the report will be enhanced with a view to achieving optimum disclosure of investment activity and portfolio status.

Annual

Within 60 days of the end of the fiscal year 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 twelve-month and separate quarterly comparisons of return, shall suggest policies and improvements that might enhance the investment program, and include an investment plan for the ensuing fiscal year.

In conjunction with its review of the annual investment report, the Investment Advisory committee shall review and reaffirm the Statement of Investment Policy of the City, whether or not specific policy modifications are suggested as part of the annual report.

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

Other Reporting

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

VII. Investment Instruments

Investment instrument authorized for purchase by the City include:

A. U.S. Treasury, agency and instrumentality obligations maturing within four years;

B. certificates of deposit;

C. prime bankers' acceptances with maturities less than ~~270~~ 180 days, which are eligible for purchase by the Federal Reserve System, and are issued by the top 50 banks in the world, or any qualified depository in the State of California with a 4.5 percent equity to asset ratio. Purchases from any one bank may not exceed 30 percent of the City's investment portfolio;

D. prime commercial paper;

E. medium term corporate notes with

   (a) a maximum maturity of two years issued by corporations doing business in the United States which are rated "A" or its equivalent or better byone or more of the four following national rating services: Moody's, Standard and Poor's, Fitch's or Keefe's;

   (b) a maximum maturity of three years, A+ or its equivalent or better; or

   (c) a maximum maturity of four years, AA or its equivalent or better.

F. State of California Local Agency Investment Fund;

G. County agency investment fund;

H. repurchase agreements; and

I. reverse repurchase agreements for cash flow purposes when authorized by the City Council and

   (a) with securities owned and previously paid for for a minimum of 30 days prior to the settlement of the reverse repurchase agreement

   (b) shall not exceed 20% of the portfolio

J. mutual funds meeting the requirements of Section No. 53601(k) of the State Government Code, provided that use of mutual funds shall be limited to bond proceeds for which the City Treasurer finds a mutual fund's

accounting methods particularly suited to the accounting requirements of the bond issue and helpful with arbitrage calculations.

K. Asset-backed corporate notes of the following characteristics:

(a) Minimum rating agency rating of the issuer: A, its equivalent, or better

(b) Minimum rating agency rating of the asset-backed securities themselves: AA, its equivalent, or better.

(c) Maximum percentage of the portfolio permissible for asset-backed securities: 20 percent. However, because medium term notes and asset-backed securities are both corporate securities, and because the 30 percent ceiling on medium term notes and 20 percent ceiling on asset-backed securities could result in an undue concentration of investments in corporate securities, the combined share of the portfolio occupied by the two classes of corporate securities shall not exceed 40 percent.

(d) Mortgage-backed corporate notes shall not be invested in.

(e) Maturity limits: "Bullet" maturity, four years; "Stated Final" maturity, five years.

L. The City shall not invest any funds in any security that could result in zero interest accrual if held to maturity. This limitation shall not apply to investments in shares of beneficial interest issued by diversified management companies as provided for in Section VII.J., above; or to such prohibited investments held at the time this section is adopted.

M. The City shall not invest any funds in inverse floaters, range notes, or interest only strips that are derived from a pool of mortgages.

N. The limitations set forth in Section VII. L. and M., above shall not apply to investments in shares of beneficial interest issued by diversified management companies as provided for in Section VII. J., above; or to such prohibited investments held in the portfolio at the time this section is adopted.

VIII. Investment Terms and Conditions

A. The following terms and conditions shall apply to the use of repurchase

agreements:

1. Securities purchased under the repurchase agreement shall be limited to the securities and qualifications listed above.

2. Securities shall be marked-to-market daily, and shall be maintained at a value equal to or greater than the cash investment.

3. At the time of purchase the market value of the securities shall be in excess of the cash investment.

4. All securities purchased under a repurchase agreement shall be held by a third-party custodian or safekeeping agent. Transfer of underlying securities to a counterparty bank's customer book entry account may be used for book entry delivery, and a counterparty bank's trust department or safekeeping department may also be used for physical delivery of the underlying security.

5. The seller of repurchase securities shall not be entitled to substitute securities, except as authorized by the City. New or substitute securities should be reasonably identical to the original securities in terms of maturity, yield, quality, and liquidity.

6. "Retail" repurchase agreements shall not be authorized for purchase.

7. As soon as possible a master repurchase agreement shall be executed between the City and all trading partners.

B. The following terms and conditions shall apply to the use or commercial paper:

1. Maturities shall be limited to ~~180~~ 270 days or less.

2. Purchases must be of the highest letter and numerical rating as provided for by Moody's or Standard and Poor's rating services.

3. Purchases must be limited to corporations organized and operating within the United States, having total assets in excess of five hundred million dollars, and having an "A," its equivalent or higher rating for the issuer's debentures, other than commercial paper (as provided for by Moody's or Standard and Poor's rating service).

4. Purchases may not represent more than 10% of the outstanding paper of an issuing corporation.

C. The following terms and conditions shall apply to the use of negotiable certificates of deposit:

1. Certificates with maturities greater than six months through one year shall have an A-2/P-2 rating or its equivalent or better as provided for by one of the four following national rating services: Moody's, Standard and Poor's, Fitch's or Keefe's.

2. Certificates with maturities greater than one year shall have the following, equivalent or higher ratings: one through two years, A; two through three years, A+; three through four years, AA.

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

X. Prudence

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

XI. Internal Controls

The Director of Finance shall establish a system of internal controls, which shall be documented in writing. 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: control of collusion, separation of duties, separating transaction authority from accounting and recordkeeping, custodial safekeeping, clear delegation of authority, specific limitations regarding securities losses and remedial action, written confirmation of telephone transactions, minimizing the number of authorized investment officials, documentation of transactions and strategies, and ethical standards.

XII. Banks and Securities Dealers: Selection

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

Effective October 14, 1987, the City shall be prohibited from investing funds with any person which 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.

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

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.)

XIII. Maturity

The City shall not invest in instruments whose maturities exceed four years at the time of purchase. Instruments with maturities greater than two years shall be limited to (1) U.S. Treasury and agency obligations; (2) medium term notes rated "A" or its equivalent or better by at least one of the four national rating services identified above; (3) certificates of deposit rated "A", its equivalent or better by at least one of the four national rating services identified above; and (4) asset-backed notes as regards the "bullet" maturity, provided the "stated final" maturity is not more than five years. The average maturity of the City's short-term portfolio shall not exceed one year.

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

XIV. Diversification

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

A. Portfolio maturities shall be staggered in a way that avoids undue concentration of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity.

B. Concern for liquidity shall be insured through practices that include covering the next vendor disbursement date and payroll date through maturing investments of U.S. Treasury bills.

C. Risks of market price volatility shall be controlled through maturity diversification such that aggregate price losses on instruments with maturities exceeding one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.

D. Specific diversification limitation shall be imposed on the portfolio as follows:

1. No more than 40% of the portfolio may be invested beyond twelve months, and the average maturity of the portfolio shall not exceed 400 calendar days.

2. Except for deposits in the Local Agency Investment Fund, instruments of the U.S. government or federal agencies fully backed by the U.S. government, and fully collateralized certificates of deposit or fully collateralized medium term notes, no more than 20% of the overall portfolio may be invested in the securities of a single financial institution.

3. The maximum proportion of the total portfolio that shall be placed at any one time in each of the categories of investment are as follows:

(a) Thirty (30) percent in negotiable certificates of deposit,

(b) Forty (40) percent in banker's acceptances,

(c) Thirty (30) percent in medium term notes,

(d) Twenty-five (25) percent in any other obligation (with the exception of commercial paper) that does not bear the full faith and credit of the United States government or which is not fully collateralized or insured,

(e) Twenty (20) percent in asset-backed securities provided, however, that medium term notes and asset-backed securities in combination do not exceed forty (40) percent of the portfolio.

4. No more than 15% of the portfolio may be invested through the County Treasurer in any agency investment fund which the County may establish.

5. No more than 15% or the portfolio may be invested in prime commercial paper. However, if the dollar-weighted average maturity of the entire portfolio does not exceed 31 days, an additional 15% may be invested in prime commercial paper.

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

XV. Risk Tolerance

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

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

A. 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.

B. All transactions will be executed on a delivery versus payment basis.

C. The City will not enter into reverse repurchase agreements other than for cash flow requirements; nor shall it trade in options on future contracts unless, upon recommendation by the Investment Advisory Committee, such transactions are specifically authorized by the City Council.

D. A competitive bid process, utilizing a minimum of three financial institutions deemed eligible by the Investment Advisory Committee, will be used to place all investment purchases. Based on a quarterly 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 quarterly evaluation:

   1. number of transactions competitively won

   2. prompt and accurate confirmation of transactions

   3. efficient securities delivery

   4. accurate market information account servicing

E. The Finance Director shall designate an official to manage investments and designate a second official to perform investment management during absences of the primary designee. The Finance Director shall insure that competent investment management is maintained and shall insure that, if both designated investment officials are replaced or are simultaneously absent, any temporary replacement(s) shall be closely supervised, indoctrinated in the requirements of this Statement of Investment Policy, and given written investment procedures regulating the authority to invest in maturities beyond six months by means of appropriate controls and restraining requirements.

F. In order to assist in identifying "qualified financial institutions," the Finance Director shall forward copies of the City's Investment Policy to those financial institutions with which the City is interested in doing business and require written acknowledgement of the Policy.

XVI. Safekeeping and Custody

To protect against potential fraud and embezzlement, the assets of the City shall be held in the City's vault or secured through third-party custody and safekeeping procedures. The investment official shall be bonded to protect the public against possible embezzlement and malfeasance. Safekeeping

procedures shall be reviewed annually by an independent auditor. The auditor may conduct surprise audits of safekeeping and custodial procedures.

XVII. Investment Policy Adoption

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

DRAFT

HAYWARD CITY COUNCIL

RESOLUTION NO. _____

Introduced by Council Member _____

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

WHEREAS, by Resolution No. 85-252 C.S. dated August 6, 1985, the City Council adopted a Statement of Investment Policy for the City of Hayward; and

WHEREAS, the Statement of Investment Policy requires the Director of Finance to submit an annual report and make recommendations for amendments to the investment program; and

WHEREAS, the Director of Finance has submitted his annual report to the City Council and recommendations for amendments of the investment program to the City Council.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Hayward that that certain report entitled "Statement of Investment Policy," 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 Statement of Investment Policy is hereby affirmed, and that the authority of the Director of Finance, or his or her designee, to make investments pursuant to the Policy is hereby renewed.

IN COUNCIL, HAYWARD, CALIFORNIA _____, 2001

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