



CITY OF
HAYWARD
HEART OF THE BAY

5

DATE: September 11, 2007
TO: Mayor and City Council, Redevelopment Agency, Housing Authority
FROM: Director of Finance and Internal Services
SUBJECT: Annual Review of City's Investment Program

RECOMMENDATION

That Council reviews the report and adopts the attached three resolutions pertaining to the City's Investment Program.

BACKGROUND

This report provides an annual review of the City's Investment Program, as required by State statute and the City's Statement of Investment Policy.

The report presents: 1) Review of Annual Investment Report, 2) Reaffirmation the City's Statement of Investment Policy, and 3) Reaffirmation of Delegation of Investment Authority.

The Council last reviewed and amended the City's Statement of Investment Policy on January 9, 2007.

DISCUSSION

1. Annual Investment Report

The FY 206-07 Annual Investment Report is attached and is a summation of the monthly reports submitted to Council during the preceding fiscal year. The Investment Advisory Committee reviewed and approved the Annual Investment Report at their August 21, 2007 meeting.

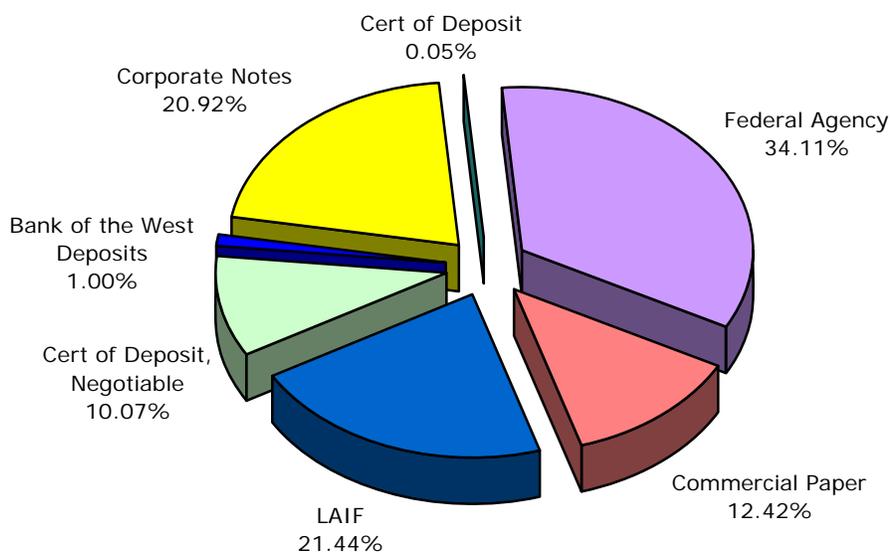
The Statement of Investment Policy states the primary investment objectives as safety, liquidity, and yield.

Safety - The City maximizes safety by investing in the highest quality securities available; including short-term securities with A-1+ ratings, and medium to long term securities with AA or higher ratings. During 2006-07, Investment Policy standards for quality continued to be exceeded, with all securities purchased rated at the highest level, in accordance with the Statement of Investment Policy and at the direction of the Investment Advisory Committee.

Safety is also achieved by having a diverse portfolio. The portfolio is diversified in accordance with Policy requirements and sound practice. At June 30, 2007, the portfolio met all policy requirements. The graph below exemplifies the diversity of investment instruments held by the City at June 30, 2007.

Portfolio Composition - June 2007

(By investment type)



Liquidity - For 2006-07, liquidity needs continued to be met, as investments in LAIF were immediately accessible, as were other investments as they matured during the year. The Investment Policy requires that no more than 40% of the portfolio may be invested in maturity dates beyond one year. For FY 2006-07, an average of 20% of the portfolio was invested in maturity dates beyond one year.

Yield - For 2006-07, average cash available for investment was \$177.6 million, \$15 million, or 9% increase over the previous year. Annual portfolio yield averaged 5.06%, a 34% increase from the last year's 3.79%. As a comparison, our most liquid investment, LAIF, average 5.12% for the year.

The portfolio earned gross accrued interest of \$8.6 million, a \$2.8 million, or 47% increase over the previous year. The increase in accrued interest was due to the combined effects of prudent investment, higher yields, and greater cash available for investment.

The following comparative statistics display the result of investment activity in recent years:

(\$ in 000's)	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Annual Portfolio Yield	4.11%	2.64%	1.82%	2.38%	3.79%	5.06%
Annual Accrued Interest	\$5,727	\$3,735	\$2,483	\$3,386	\$5,881	\$8,643
Average Portfolio Balance	\$139,334	\$141,494	\$136,411	\$147,642	\$162,458	\$177,590

Our Performance Goal is established by the Statement of Investment Policy. The goal is calculated by adding the three and six month Treasury bill rates together, dividing the sum by two, and then adding 50 basis points. A Performance Goal of 100% means that our portfolio yield equaled that of the Performance Goal.

For 2006-07, our Performance Goal averaged 91.30%; improved from last year's 79.23% average. The improved performance for 2006-07 was due to an increase in cash available for investment and an increase in short-term interest rates.

Future Strategy

For 2007-08, the outlook for the U.S. national economy shows a slowing economy due to the housing sector producing a drag on overall growth. Despite high energy costs, inflation is expected to be moderate, remaining in the 2% range. Unemployment, which averaged 4.5% in 2006-07, is expected to increase to 5% by the end of 2007-08.

Yield rates in 2007-08 are anticipated to decline, as the Federal Reserve is anticipated to decrease the federal funds rate from 5.25% to 4.75%. In this environment, the strategy is to selectively extend maturities to take advantage of the yield curve and to evaluate our investment in LAIF.

The City of Hayward does not own, nor intends to purchase any mortgage backed securities.

2. Statement of Investment Policy

Attached for your reference is the FY 2007-08 Statement of Investment Policy. State statutes governing investment activity require the Council to annually reaffirm the Statement of Investment Policy, regardless of whether any changes are recommended. The Investment Advisory Committee reviewed and reaffirmed the Statement of Investment Policy at their August 21, 2007 meeting. The action tonight is asking the Council to reaffirm the policy, without modification.

3. Delegation of Investment Authority

California Government Code Section 53607 requires the Council to annually confirm the delegation of investment authority. The action tonight is asking the Council reaffirm the delegation of investment authority to the Director of Finance and Internal Services, without modification.

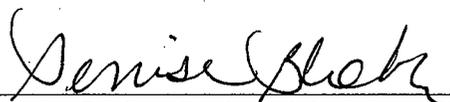
SCHEDULE

An annual report regarding the City's investment program is presented to Council each year. In the interim, Council is provided a monthly investment activity report. In addition, the Investment Advisory Committee meets quarterly to review investment activity and discuss investment strategy. The next Investment Advisory Committee meeting is scheduled for October 30, 2007.

FISCAL IMPACT

During 2006-07, the City's investment portfolio earned \$8.6 million dollars in gross accrued interest. The 2007-08 interest forecast is uncertain and will depend on global financial markets and the U.S. Federal Reserve Banks actions regarding interest rates. However, the best projection from staff for FY 2007-08 accrued interest is \$6.6 million dollars, due to an anticipated decrease in interest rates and cash available for investment.

Prepared by:


Denise Blohm, Budget Administrator

Recommended by:


Debra C. Auken, Director of Finance and Internal Services

Approved by:


Fran David, Acting City Manager

Attachments: FY 2006-07 Annual Investment Report
FY 2007-08 Statement of Investment Policy
(3) Draft Resolutions

DRAFT

HOUSING AUTHORITY OF THE HAYWARD CITY COUNCIL

RESOLUTION NO. 07-

Introduced by Commissioner _____

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. 07-002, dated January 9, 2007, the City Council adopted a Statement of Investment Policy for the City of Hayward; and

WHEREAS, the Director of Finance and Internal Services has submitted the annual report to the City Council; 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 2006-07 Annual Investment Report," 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 reaffirmed, and that the authority of the Director of Finance and Internal Services, 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 Internal Services 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 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 September 11, 2007

ADOPTED BY THE FOLLOWING VOTE:

AYES: COMMISSION MEMBERS:
CHAIR:

NOES: COMMISSION MEMBERS:

ABSTAIN: COMMISSION MEMBERS:

ABSENT: COMMISSION MEMBERS:

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

APPROVED AS TO FORM:

Counsel of the Housing Authority for
the City of Hayward

DRAFT

REDEVELOPMENT AGENCY OF THE CITY OF HAYWARD

RESOLUTION NO. RA 07-

Introduced by Agency 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. 07-002, dated January 9, 2007, the Redevelopment Agency Board adopted a Statement of Investment Policy for the City of Hayward; and

WHEREAS, the Director of Finance and Internal Services has submitted the annual report to the Agency Board; 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 Redevelopment Agency Board of the City of Hayward that the report entitled "FY 2006-07 Annual Investment Report," 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 reaffirmed, and that the authority of the Director of Finance and Internal Services, 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 Internal Services 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 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 September 11, 2007

ADOPTED BY THE FOLLOWING VOTE:

AYES: AGENCY MEMBERS:
CHAIR:

NOES: AGENCY MEMBERS:

ABSTAIN: AGENCY MEMBERS:

ABSENT: AGENCY MEMBERS:

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

APPROVED AS TO FORM:

General Counsel

DRAFT

HAYWARD CITY COUNCIL

RESOLUTION NO. 07-

Introduced by _____

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. 07-002, dated January 9, 2007, the City Council adopted a Statement of Investment Policy for the City of Hayward; and

WHEREAS, the Director of Finance and Internal Services has submitted the annual report to the City Council; 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 2006-07 Annual Investment Report," 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 reaffirmed, and that the authority of the Director of Finance and Internal Services, 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 Internal Services 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 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 September 11, 2007

ADOPTED BY THE FOLLOWING VOTE:

AYES: AGENCY MEMBERS:

CHAIR:

NOES: AGENCY MEMBERS:

ABSTAIN: AGENCY MEMBERS:

ABSENT: AGENCY MEMBERS:

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

APPROVED AS TO FORM:

General Counsel



FY 2006-07

Annual Investment Report

Prepared by: Department of Finance and Internal Services
Denise Blohm, Budget Administrator
August 09, 2007

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A - FY 2006-07 Investment Summary 12

The annual report is prepared in compliance with the City of Hayward Investment Policy and the State of California. The purpose of the report is to apprise the members of the City Council, as well as other interested parties, of 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 required to meet local needs or comply with legal requirements.

A. Portfolio Overview

For FY 2006-07, average cash available for investment increased \$15 million (from \$162,458,896 to \$177,590,145) or 9%. The increase was due, for the most part, to changes in cash flow needs and improvements in revenues. Annual portfolio yield increased 127 basis points (from 3.79 to 5.06), or 34%. Portfolio gross accrued interest increased \$2.8 million (from \$5,881,295 to \$8,642,640), or 47%. The increase in accrued interest was due to the combined effects of higher yield and greater cash available for investment. A summary of FY 2006-07 investment activity and results can be found in Attachment A.

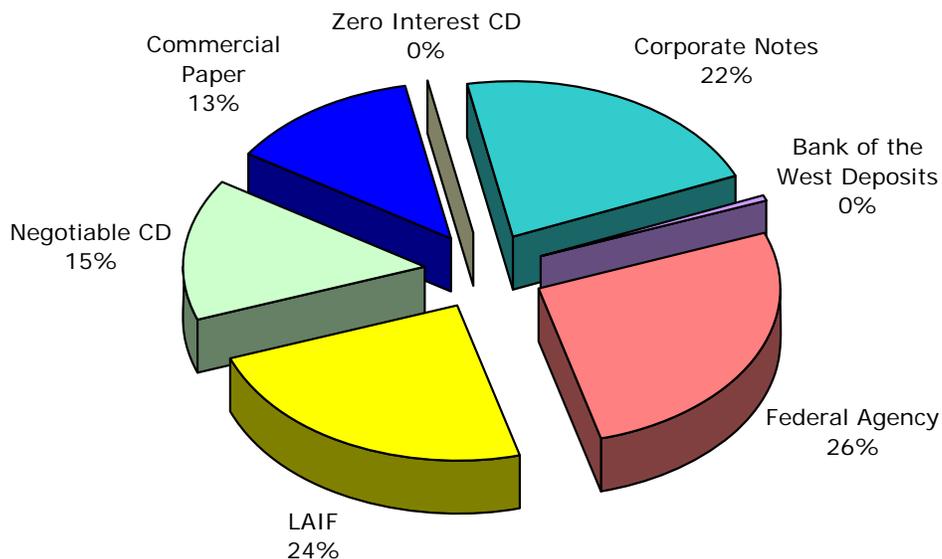
As can be seen in the following chart, the annual portfolio yield and accrued interest have increased from their FY 2003-04 low. The following chart presents portfolio results over the past six years.

(\$ in 000's)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Annual Portfolio Yield	4.11%	2.64%	1.82%	2.38%	3.79%	5.06%
Annual Accrued Interest	\$5,727	\$3,735	\$2,483	\$3,386	\$5,881	\$8,643
Average Portfolio Balance	\$139,334	\$141,494	\$136,411	\$147,642	\$162,458	\$177,590

The investment program took advantage of its safety, liquidity, and yield requirements by diversifying investment security types. Diversifying security issuers and types, along with correlating investment maturities with cash flow needs dilutes risk. The following chart shows the diversity of the average FY 2006-07 portfolio composition.

FY 2006-07 Average Portfolio Composition
(By security type)



The following table displays each type of security purchased throughout the year, along with the minimum

and maximum amount invested at month-end.

Portfolio Composition	Month-End Min	Month-End Max	Month-End Average \$	Month-End Average %
General cash account	\$150,021	\$1,985,116	\$583,989	0%
LAIF	\$29,350,000	\$60,300,000	\$42,091,667	24%
Zero Interest CD	\$0	\$1,004,388	\$161,144	0%
Certificate of Deposit	\$0	\$99,000	\$33,000	0%
Negotiable CD	\$15,213,287	\$38,220,147	\$26,161,680	15%
Commercial Paper	\$16,832,681	\$25,513,030	\$22,751,216	13%
Federal Agency	\$36,157,707	\$72,769,519	\$47,426,139	27%
Corporate Notes	\$29,604,367	\$45,756,565	\$38,381,310	22%

B. Yield

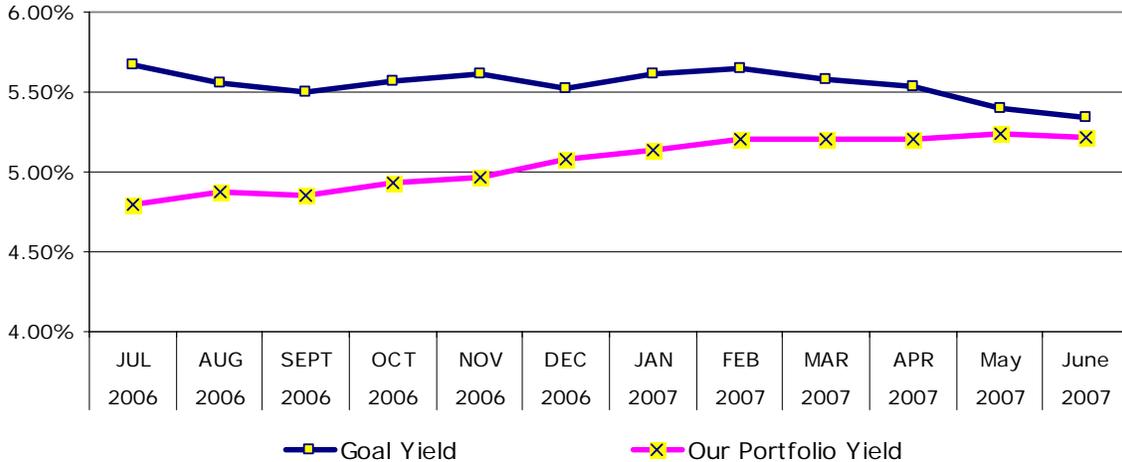
Yield is the percentage of annual return on investment. As noted at the beginning of this report, the average annual yield increased from 3.79% to 5.06%; 127 basis point increase. The increase was a result of three factors. First, the maturation, sale, or call of lower yielding securities; followed by the purchase of higher yielding securities. Second, a 41 basis point increase in the LAIF yield (from 4.84 to 5.25), which contributed additional yield to our most liquid investment. Third, a \$15 million dollar increase in total portfolio value, due to changes in cash flow needs and improvements in revenue. As a result of these three factors, annual gross accrued interest increased \$2.7 million, totaling \$8.6 million for the year.

In FY 2006-07 rates increased from their previous levels the year before. Since securities purchased throughout the year were bought during a period of higher rates, this helped to increase the portfolio yield. The following chart represents the portfolio range of results for FY 2006-07.

Yield and Accrued Interest	Month-End Min	Month-End Max	Month-End Average
Portfolio Rate	4.80%	5.24%	5.06%
Goal Rate	5.34%	5.67%	5.55%
% of Goal Achieved	84.66%	97.75%	91.30%
LAIF Stated Rate	4.84%	5.25%	5.12%
Accrued Interest	\$645,881	\$836,592	\$722,393

The following chart highlights the FY 2006-07 goal and portfolio yield. The chart shows a steady increase for the portfolio yield, while the goal yield had a gradual decline. As the two rates moved inversely, the portfolio yield came closer to the goal yield.

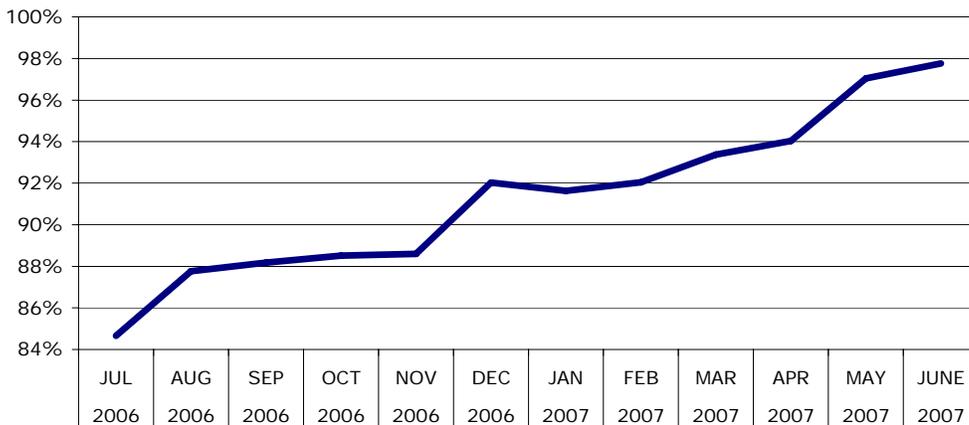
FY 2006-07 Rate of Return (Goal Yield vs. Portfolio Yield)



The Performance Percentage divides the portfolio yield against the goal yield. The resulting percentage tells how close the portfolio yield came to the goal yield. One hundred percent would mean that the portfolio yield met the goal yield. For FY 2006-07, the performance percentage averaged 91.30%; a 15% improvement over last year's 79.23% average. This was due to the fact that the goal and portfolio yields moved in opposite directions, as demonstrated in the above chart.

The following chart shows the performance percentage throughout the year. As the portfolio yield and goal yield moved in opposite directions, our portfolio yield came closer to the goal yield, increasing our overall performance percentage.

FY 2006-07 Percentage of Goal Achieved (Portfolio Yield / Goal Yield)

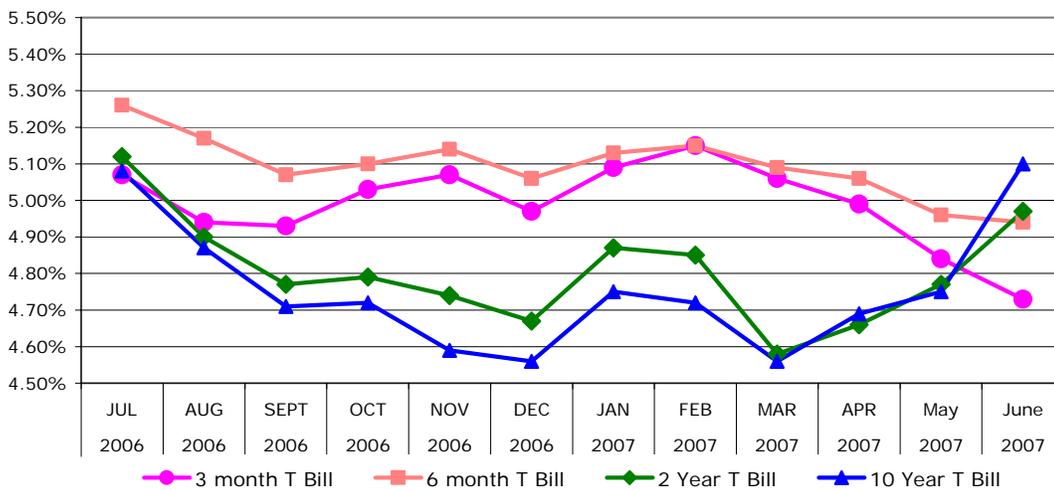


It should be emphasized that the Statement of Investment Policy states that the portfolio is to be managed with an emphasis *first* on safety, *then* on liquidity, and *finally* on yield. Therefore, it should be emphasized that the need to maintain quality, diversity, and liquidity constrain the ability to maximize yield.

It is important to note that the movement of market interest rates largely determines the performance level. That is, in a period of rising rates, portfolio yield will typically trail the goal yield, as portfolio holdings that were purchased in earlier periods of lower rates cause the yield in aggregate to be less than the current goal yield. As these holdings mature, new purchases are made at the higher prevailing rates, with portfolio yield rising and performance reaching the goal rate. Conversely, in periods of rapidly falling rates, portfolio performance will typically exceed the goal yield, until the relatively higher yielding holdings matured.

The following chart shows the change in short and medium term rates over the past year. As can be seen in the chart, short term rates (in the 3-6 month range) offered the highest yield, while longer term rates (that of two years and beyond) offered lower rates. This phenomenon is referred to as an "inverse yield curve," as the yield of shorter term securities are higher than that of longer term securities.

FY 2006-07 Short and Medium Term Rate Movements (Average monthly rates)



As lower yielding securities matured this year, we were able to replace them with higher yielding securities. In FY 2006-07, 74 securities matured. Fifty-one, or 65% of maturing securities were short term securities, which ranged in yield from 4.96 to 5.43. These securities were replaced by securities yielding between 5.25 and 5.38.

The remaining 23 maturing medium term securities ranged in yield from 2.25 to 5.47. These securities were replaced by securities yielding between 4.77 and 5.50.

C. Maturities and Purchases

Maturities

The following table displays a summary of matured securities, along with the minimum and maximum yield earned, credit ratings, and total annual book value.

	Yield Earned		Credit Rating	Total \$ Matured
	Min	Max		
Short Term				
24 issues of Negotiable CDs	4.96	5.43	A-1/P-1	\$107,213,287
27 issues of Commercial Paper	5.14	5.37	A-1/P-1	\$107,631,534
Medium Term				
15 issues of Federal Agencies	2.25	5.47	AAA	\$33,197,436
8 issues of Corporate Notes	2.76	5.23	AAA-AA	\$20,802,204

Purchases

The following table displays a summary of purchased securities, along with the minimum and maximum yield earned, credit ratings, and total annual book value.

	Yield Earned		Credit Rating	Total \$ Purchased
	Min	Max		
Short Term				
1 CD	4.96	4.96	A-1/P-1	\$99,000
19 issues of Negotiable CDs	5.26	5.38	A-1/P-1	\$98,000,000
26 issues of Commercial Paper	5.25	5.38	A-1/P-1	\$110,542,677
Medium Term				
24 issues of Federal Agencies	5.00	5.50	AAA	\$65,809,248
8 issues of Corporate Notes	4.77	5.41	AAA-AA	\$22,895,158

D. Market Value

The City is required to report its portfolio market value each June 30th. As of June 30, 2007, if the entire portfolio were sold, principle recovery would have been \$336,802 more than total portfolio cost.

As stated in previous reports, 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 interest rates serves to increase the prices of existing holdings.

Conversely, the price of the existing portfolio will decrease as interest rates rise. The price appreciation, or decline in a market typified by rising rates, is only realized if a security is sold before maturity. As a security approaches maturity, its price approaches par and will equal par at maturity.

regardless of market conditions. Under normal circumstances it has been our practice to hold securities until maturity, although securities may be sold when market conditions or events indicate that it is appropriate to do so.

E. Liquidity

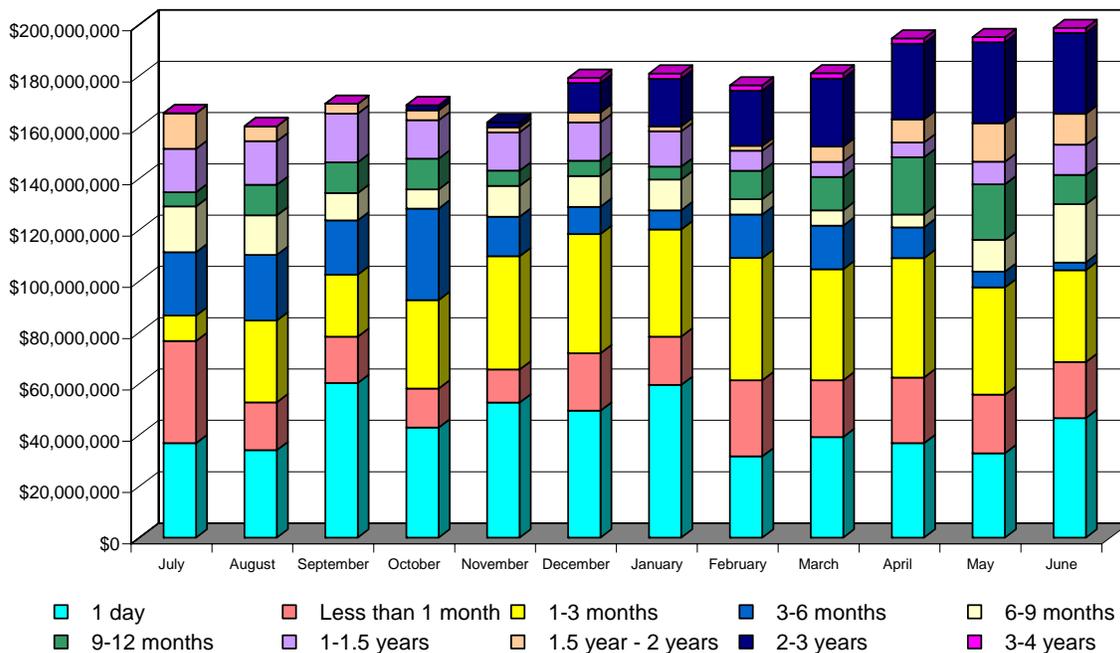
A portfolio has the appropriate level of liquidity if needed portions of it can be converted into cash to meet obligations and to take advantage of market conditions. Of these factors, the need to meet obligations is the most critical.

To ensure adequate cash is available, the City monitors its cash position daily, satisfying its obligations and investing the remaining cash. LAIF is the investment of choice for this purpose. Under normal circumstances, LAIF offers the City overnight liquidity at rates that are equivalent to other short term investments, with the added benefit of immediate withdrawal being available within a moments notice.

At year end, \$42.6 million, or 21% of the portfolio was invested in LAIF. This provided sufficient liquidity to more than cover foreseeable shortfalls in cash resulting from the normal variability of our many revenue sources. Additionally, there is nothing in the portfolio that cannot be sold immediately if the need arose, although it generally is our practice to hold investments until maturity.

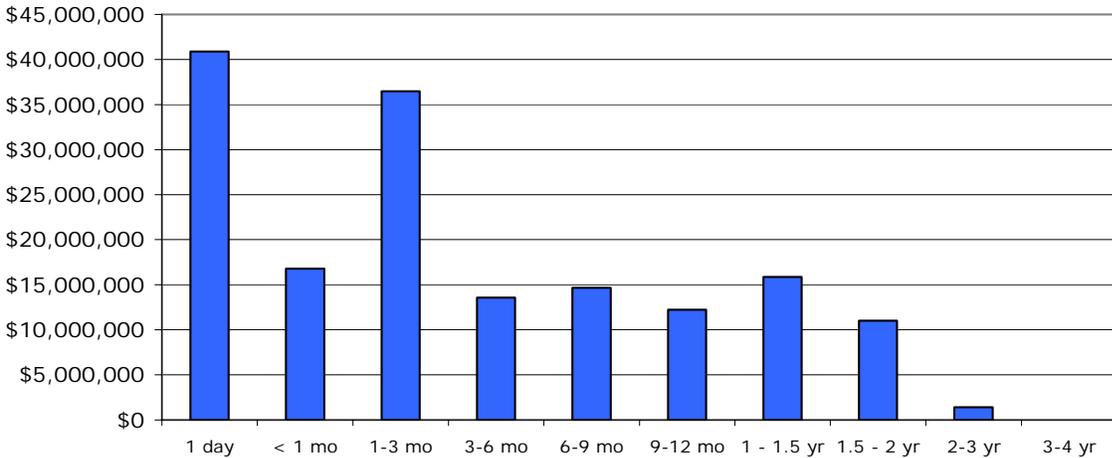
The following chart represents the portfolio's total book value, divided by maturity periods. As can be seen in the chart, our investment policy requirement to invest no more than 40% of the dollars in excess of the one year maturity was met.

FY 2006-07
 Monthly Portfolio Book Value
 at each maturity range



The following chart presents the average maturity periods for FY 2006-07. As can be seen in the chart, most of our investments were concentrated in the 90 day area. This was due to the fact that the yield curve steadily increased until it reached the six month maturity mark, then declined. This yield curve shape is known as an "inverted yield curve." We chose to invest where the market offered the highest interest rate, which was at maturities less than six months.

FY 2006-07 Average Portfolio Maturity Range
(By Book Value)



The following table displays maturity periods, and the month-end minimum and maximum book value invested in each period at month end.

Portfolio Maturity	Month-End Min	Month-End Max	Month-End Average \$	Month-End Average %
1 day	\$31,709,707	\$60,300,000	\$43,569,244	25%
Less than 1 month	\$12,954,921	\$39,777,596	\$22,323,846	13%
1-3 months	\$10,000,000	\$47,704,700	\$37,339,746	21%
3-6 months	\$2,990,050	\$35,652,101	\$16,307,206	9%
6-9 months	\$5,017,148	\$22,702,780	\$11,618,610	7%
9-12 months	\$5,017,148	\$22,233,020	\$11,466,046	6%
1-1.5 years	\$5,828,680	\$18,973,604	\$12,635,672	7%
1.5 year - 2 years	\$1,917,760	\$14,999,514	\$6,594,035	4%
2-3 years	\$0	\$31,549,266	\$14,569,073	8%
3-4 years	\$0	\$2,000,000	\$1,166,667	1%

The Statement of Investment Policy sets three major maturity constraints to insure liquidity:

1. The City shall not invest in instruments whose maturities exceed four years at the time of purchase. State law allows five-year maturities, but City policy is more demanding than State law in several important respects.
2. No more than 40% of the portfolio shall be invested beyond twelve months.
3. The average maturity of portfolio investments shall not exceed 400 calendar days.

F. Investment Policy

At June 30, 2007, the portfolio met all policy limitations. However, during FY 2006-07, our allowable percentage of single issuer GSE federal agency securities exceeded our 25% maximum limit by 2%.

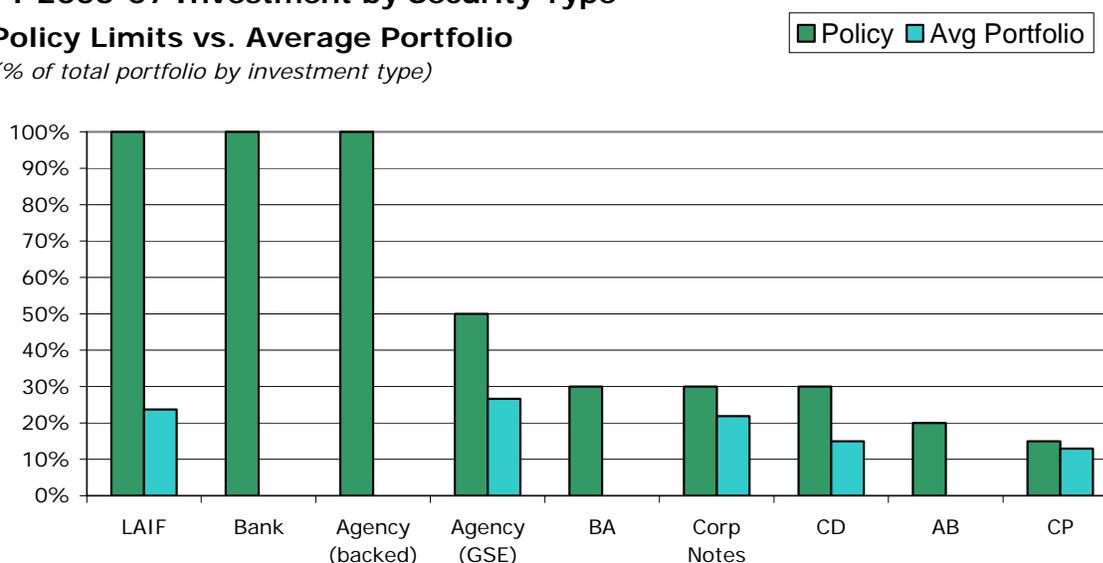
The issuer was Federal Home Loan Bank (FHLB). FHLB is a federal agency security that is a government sponsored entities (GSE). This means that the security holds the "implicit guarantee" of the federal government versus the "full faith and credit" of the federal government. Federal agency securities are technically not fully backed by the federal government, thus a maximum total for all issuers is 50%, with a 25% individual issuer limitation. Staff would like to note that debt securities issued by federal agencies are considered to be of the highest credit quality and are rated AAA.

The following chart compares security-type limits authorized in the Statement of Investment Policy to the average percentage of those types in our investment portfolio.

FY 2006-07 Investment by Security Type

Policy Limits vs. Average Portfolio

(% of total portfolio by investment type)



G. Accounting Requirements for Investments

GASB No. 40, Deposit and Investment Risk Disclosure, requires annual disclosure of various types of investment risks as of the June 30 reporting period. The purpose of the accounting disclosure is to add information regarding certain risks associated with cash and investments. The requirement serves to provide additional disclosure as related to credit rating risk, interest rate risk, and concentration risk. By disclosing these areas of risk, a reader can become more informed of various risks associated with cash and investments.

The FY 2006-07 Comprehensive Annual Financial Report (CAFR) is currently being completed by the City's certified public accountant firm Maze and Associates, and will be available in January 2008. The report will contain the GASB No. 40 reporting requirement.

H. Investment Safety

As always, staff continued to put a premium on investment safety in FY 2006-07. The Statement of Investment Policy's requirements were observed with respect to the following:

1. Only qualified and approved investment institutions were dealt with.
2. All transactions were executed on a delivery-versus-payment basis. This means that the City does not pay for securities until its title to them is confirmed.

3. Competitive bidding was the standard method of security procurement, and all bidders were pre-qualified by agreement to comply with the City policies. Furthermore, no addition to the bidders' list is made without the concurrence of the Investment Advisory Committee.
4. Investment practices followed the written authorizations, controls and procedures in the Statement of Investment Policy; as previously approved by the City Council.
5. All investment instruments were secured through third party custody and the safekeeping procedures of Bank of the West.
6. The City employed a computerized cash budget, which plots expenditure requirements and income delivery for the entire year. Staff correlated investment maturities with cash flow needs as a matter of routine.

I. Investment Advisory Committee

The Investment Advisory Committee has met with Finance staff responsible for investment every quarter for more than twelve years. The purpose of these meetings is to review investment strategy, approval new investment sources, discussion economic developments, monitoring investment activity and consider proposed changes to investment practices and to the Statement of Investment Policy.

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

Information is provided to the committee monthly by the Finance Department. The Finance Director chairs quarterly meetings, which include a briefing from the Budget Administrator on the status of the investment portfolio. The Advisory Committee consists of the Assistant City Manager; the City Attorney (represented by the Assistant City Attorney); two department heads appointed by the City Manager (current appointees include the City Clerk and the Police Chief); and Professor Richard Zock of California State University, East Bay, representing an educational institution.

The contributions of Professor Zock warrant particular attention and deserve particular thanks. His expertise in economic and financial matters within the private sector and the larger economy is invaluable to maintenance of prudent, effective investment.

J. Future Investment Strategy

The rate-setting Federal Reserve Open Market Committee maintained the 5.25% federal funds rate in FY 2006-07. For the upcoming year, we will continue to monitor inflation and economic growth, and their affects on the yield curve. The investment strategy going into FY 2007-08 is to selectively extend maturities to take advantage of interest rates and to evaluate our investment in LAIF.

As always, we will maintain our emphasis upon safety and liquidity.

Prepared by:



Denise Blohm
Budget Administrator

**FY 2006-07
Investment Summary**

Portfolio Composition

	July		August		September		October		November		December		January		February		March		April		May		June		Average	
General cash account	\$594,611	0%	\$150,021	0%	\$156,919	0%	\$293,255	0%	\$278,951	0%	\$766,059	0%	\$182,909	0%	\$159,707	0%	\$211,520	0%	\$1,449,022	1%	\$779,779	0%	\$1,985,116	1%	\$583,989	0%
LAIF	\$36,200,000	22%	\$33,900,000	21%	\$60,300,000	36%	\$42,600,000	25%	\$51,150,000	32%	\$48,700,000	27%	\$54,400,000	30%	\$31,550,000	18%	\$39,000,000	22%	\$35,350,000	18%	\$29,350,000	15%	\$42,600,000	21%	\$42,091,667	24%
Zero Interest CD	\$0	0%	\$722,792	0%	\$1,004,388	1%	\$206,550	0%	\$0	0%	\$0	0%	\$0	0%	\$0	0%	\$0	0%	\$0	0%	\$0	0%	\$0	0%	\$161,144	0%
Certificate of Deposit	\$0	0%	\$0	0%	\$0	0%	\$0	0%	\$0	0%	\$0	0%	\$0	0%	\$0	0%	\$99,000	0%	\$99,000	0%	\$99,000	0%	\$99,000	0%	\$33,000	0%
Negotiable CD	\$25,213,287	15%	\$28,213,287	18%	\$15,213,287	9%	\$25,213,287	15%	\$15,213,287	9%	\$30,213,287	17%	\$28,220,147	16%	\$38,220,147	22%	\$33,220,147	18%	\$30,000,000	15%	\$25,000,000	13%	\$20,000,000	10%	\$26,161,680	15%
Commercial Paper	\$24,758,300	15%	\$21,806,781	14%	\$16,832,681	10%	\$22,663,993	13%	\$22,663,993	14%	\$22,645,756	13%	\$22,647,143	13%	\$22,758,805	13%	\$20,553,670	11%	\$25,487,752	13%	\$25,513,030	13%	\$24,682,693	12%	\$22,751,216	13%
Federal Agency	\$39,153,694	24%	\$36,157,707	23%	\$36,157,707	21%	\$38,157,707	23%	\$38,157,707	24%	\$41,685,913	23%	\$45,840,562	25%	\$44,864,431	25%	\$51,943,450	29%	\$56,452,140	29%	\$72,769,519	37%	\$67,773,131	34%	\$47,426,139	27%
Corporate Notes	<u>\$39,475,016</u>	<u>24%</u>	<u>\$39,414,887</u>	<u>25%</u>	<u>\$39,414,887</u>	<u>23%</u>	<u>\$39,414,887</u>	<u>23%</u>	<u>\$34,419,187</u>	<u>21%</u>	<u>\$35,229,417</u>	<u>20%</u>	<u>\$29,604,367</u>	<u>16%</u>	<u>\$38,756,962</u>	<u>22%</u>	<u>\$35,953,602</u>	<u>20%</u>	<u>\$45,756,565</u>	<u>24%</u>	<u>\$41,567,970</u>	<u>21%</u>	<u>\$41,567,970</u>	<u>21%</u>	\$38,381,310	22%
	\$165,394,908	100%	\$160,365,475	100%	\$169,079,869	100%	\$168,549,679	100%	\$161,883,125	100%	\$179,240,432	100%	\$180,895,128	100%	\$176,310,053	100%	\$180,981,388	100%	\$194,594,479	100%	\$195,079,297	100%	\$198,707,910	100%	\$177,590,145	100%

Yield and Accrued Interest

	July		August		September		October		November		December		January		February		March		April		May		June		Average	
Portfolio Rate	4.80%		4.88%		4.85%		4.93%		4.97%		5.08%		5.14%		5.20%		5.21%		5.20%		5.24%		5.22%		5.06%	
Goal Rate	5.67%		5.56%		5.50%		5.57%		5.61%		5.52%		5.61%		5.65%		5.58%		5.53%		5.40%		5.34%		5.55%	
% of Goal Achieved	84.66%		87.77%		88.18%		88.51%		88.59%		92.03%		91.62%		92.04%		93.37%		94.03%		97.04%		97.75%		91.30%	
LAIF Stated Rate	4.84%		4.95%		5.02%		5.10%		5.12%		5.12%		5.15%		5.18%		5.21%		5.22%		5.25%		5.25%		5.12%	
Accrued Interest	\$672,607		\$661,194		\$645,881		\$684,323		\$653,107		\$660,277		\$751,899		\$721,229		\$764,030		\$836,592		\$813,226		\$804,354		\$722,393	

Portfolio Maturity

	July		August		September		October		November		December		January		February		March		April		May		June		Average	
1 day	\$36,794,611	22%	\$34,050,021	21%	\$60,300,000	36%	\$42,893,255	25%	\$52,595,140	32%	\$49,466,059	28%	\$59,497,521	33%	\$31,709,707	18%	\$39,211,520	22%	\$36,799,022	19%	\$32,894,491	17%	\$46,619,576	23%	\$43,569,244	25%
Less than 1 month	\$39,777,596	24%	\$18,696,892	12%	\$17,993,988	11%	\$15,202,250	9%	\$12,954,921	8%	\$22,403,032	12%	\$18,848,210	10%	\$29,629,064	17%	\$22,064,243	12%	\$25,640,457	13%	\$22,878,943	12%	\$21,796,555	11%	\$22,323,846	13%
1-3 months	\$10,000,000	6%	\$31,828,381	20%	\$24,161,890	14%	\$34,538,963	20%	\$44,173,804	27%	\$46,431,798	26%	\$41,767,520	23%	\$47,704,700	27%	\$43,340,044	24%	\$46,487,745	24%	\$41,780,406	21%	\$35,861,709	18%	\$37,339,746	21%
3-6 months	\$24,646,442	15%	\$25,630,922	16%	\$21,189,074	13%	\$35,652,101	21%	\$15,386,364	10%	\$10,662,022	6%	\$7,487,855	4%	\$16,911,031	10%	\$17,010,031	9%	\$12,035,141	6%	\$6,085,438	3%	\$2,990,050	2%	\$16,307,206	9%
6-9 months	\$17,876,329	11%	\$15,386,364	10%	\$10,662,022	6%	\$7,487,855	4%	\$11,947,031	7%	\$11,947,031	7%	\$11,936,141	7%	\$5,986,438	3%	\$5,986,438	3%	\$5,017,148	3%	\$12,487,740	6%	\$22,702,780	11%	\$11,618,610	7%
9-12 months	\$5,524,675	3%	\$11,947,031	7%	\$11,947,031	7%	\$11,936,141	7%	\$5,986,438	4%	\$5,986,438	3%	\$5,017,148	3%	\$11,025,367	6%	\$12,987,167	7%	\$22,233,020	11%	\$21,608,570	11%	\$11,393,530	6%	\$11,466,046	6%
1-1.5 years	\$16,953,289	10%	\$17,011,804	11%	\$18,973,604	11%	\$14,986,854	9%	\$14,921,667	9%	\$14,921,667	8%	\$13,821,967	8%	\$7,790,480	4%	\$5,828,680	3%	\$5,828,680	3%	\$8,794,930	5%	\$11,794,444	6%	\$12,635,672	7%
1.5 year - 2 years	\$13,821,967	8%	\$5,814,060	4%	\$3,852,260	2%	\$3,852,260	2%	\$1,917,760	1%	\$3,894,180	2%	\$1,976,420	1%	\$2,000,000	1%	\$6,000,000	3%	\$9,000,000	5%	\$14,999,514	8%	\$12,000,000	6%	\$6,594,035	4%
2-3 years	\$0	0%	\$0	0%	\$0	0%	\$2,000,000	1%	\$2,000,000	1%	\$11,528,206	6%	\$18,542,346	10%	\$21,553,266	12%	\$26,553,266	15%	\$29,553,266	15%	\$31,549,266	16%	\$31,549,266	16%	\$14,569,073	8%
3-4 years	\$0	0%	\$0	0%	\$0	0%	\$0	0%	\$0	0%	\$2,000,000	1%	\$2,000,000	1%	\$2,000,000	1%	\$2,000,000	1%	\$2,000,000	1%	\$2,000,000	1%	\$2,000,000	1%	\$1,166,667	1%
	\$165,394,908	100%	\$160,365,475	100%	\$169,079,869	100%	\$168,549,679	100%	\$161,883,125	100%	\$179,240,432	100%	\$180,895,126	100%	\$176,310,053	100%	\$180,981,388	100%	\$194,594,479	100%	\$195,079,297	100%	\$198,707,910	100%	\$177,590,145	100%

Investment Activity

	July	August	September	October	November	December	January	February	March	April	May	June	Average
Weighted Average Days to Maturity	157	157	128	137	121	180	201	226	250	270	300	279	201
Total number of investments	56	54	49	53	50	54	53	57	57	61	63	58	55
Purchases	6	10	0	8	0	9	6	11	7	11	9	4	7
Maturities	7	12	5	4	3	5	7	7	7	7	7	9	7



FY 2007-08

Statement of Investment Policy

Prepared by: Department of Finance and Internal Services
Denise Blohm, Budget Administrator
September 11, 2007

Last amended: January 9, 2007

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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 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.

It is intended that this policy covers all short-term operating funds and investment activities under the direct authority of the City.

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

II. Objectives

The City's primary investment objective is to achieve a reasonable rate of return on public funds while minimizing the potential for capital losses arising from market changes or issuer default. Although the generation of revenues through interest earnings on investments is an appropriate City goal, the primary consideration in the investment of City funds is capital preservation in the overall portfolio. As such, the City's yield objective is to achieve a reasonable rate of return on City investments rather than the maximum generation of income, which could expose the City to unacceptable levels of risk.

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

1. **Safety** of 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 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 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.

3. **Yield** - The investment portfolio shall be managed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow requirements, and state and local law, ordinances or resolutions that restrict the placement of short-term funds. Investment decisions should not incur unreasonable investment risks in order to obtain current investment income.
4. **Target Yield** - The investment portfolio shall be managed with the objective of regularly exceeding by 50 basis points, the average of three-month and six-month U.S. Treasury Bill rates for the equivalent period. These indices are considered benchmarks for risk-less investment transactions and therefore comprise a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles.
5. **Diversification** - The City's investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks associated with concentrating investments in specific security types or in individual financial institutions.

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

III. Use of State Investment Guidelines

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

IV. Delegation of Authority

In accordance with Section 53607 of the California Government Code, the responsibility for conducting the City's investment program is delegated to the Finance Director, who has established written procedures for the operation of the investment program, consistent with this investment policy, which also govern delegation of authority for all investment activities.

V. Investment Advisory Committee

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

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

VI. Investment Policy Adoption

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

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

VII. Reporting

The following investment activity reports will be completed.

A. Monthly

Within 30 days of the end of each month, the Finance Director 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 (GC 53607).

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. The report will present recent investment performance and future investment strategy; disclose any perceived threats to portfolio quality, security or liquidity; compare the average portfolio investment yield with the portfolio target yield.

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

B. Annual

Within 90 days of the fiscal year end, the Finance Director shall present a comprehensive annual report on the investment program and investment activity. This report shall be presented to the Investment Advisory Committee. The annual report shall include twelve-month 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 Investment Advisory Committee. The City Council shall consider any such recommended changes and annually reaffirm the Statement of Investment Policy at a public meeting of the City Council.

C. Other Reporting

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

VIII. Investment Instruments

A summary of authorized investment instruments is below. Following the summary, a detailed description of each investment instrument is provided.

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

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

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

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

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

B. Federal Agency or United States Government-Sponsored Enterprise (GSE) Obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

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

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

i. U.S. Agencies (fully backed)	City Of Hayward	CA Govt Code 53601 (e)
Maximum Maturity	4 years	5 years
Credit Rating Limit	None	None
Authorized Investment Limit	100%	None
Per Issuer Limit	100%	None
Other Requirement	None	
ii. U.S. Agencies (Government Sponsored Enterprise (GSE))	City Of Hayward	CA Govt Code 53601 (e)
Maximum Maturity	4 years	5 years
Credit Rating Limit	None	None
Authorized Investment Limit	50%	None
Per Issuer Limit	20%	None
Other Requirement	None	

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

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

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

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

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

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

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

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

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

F. Repurchase Agreements or Reverse Repurchase Agreements

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

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

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

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

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

G. Medium-Term Notes (MTN)

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

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

H. Mutual Funds

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

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

I. Money Market Funds

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

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

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

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

J. Asset-Backed Corporate Notes

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

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

K. County Agency Investment Fund;

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

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

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

LAIF	City Of Hayward	CA Govt Code 16429.1
Maximum Maturity	None	None
Credit Rating Limit	None	None
Authorized Investment Limit	\$120 million	None
Per Issuer Limit	None	None
Other Requirement	<ul style="list-style-type: none"> • The current limit on any one City investment in this fund for the number of transactions (deposits or withdrawals) is limited to 15 per month. • The City maintains a total of three LAIF investments (up to \$40 million each). • The City's participation in LAIF shall conform to State Regulation. • In general, it is the City's intention to use investment in LAIF as a temporary repository for short-term funds needed for liquidity purposes. • The Finance Director shall maintain on file appropriate information concerning LAIF's current investment policies, practices and performance. • The Finance Director shall maintain LAIF's requirements for participation, including, but not limited to, limitations on deposits or withdrawals and the composition of the portfolio. 	

M. Certificates of Deposit

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

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

IX. Prohibited Investments

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

X. Internal Controls

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

- **Clearly delegating authority to subordinate staff members.** Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
- **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.
- **Custodial safekeeping.** Securities purchased from any bank or dealer including appropriate collateral (as defined by State Law) shall be placed with an independent third party for custodial safekeeping.
- **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.
- **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. Securities will be held by a third party custodian as evidenced by safekeeping receipts.
- **Confirming telephone transactions for investments and wire transfers in writing.** Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and the safekeeping institution has a list of authorized signatures.
- **Developing wire transfer agreements with the lead bank or third party custodian.** This agreement should outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.

XI. Evaluation of Investment Officer Actions

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

The City adheres to the guidance provided by the prudent investor standard which obligates a fiduciary to ensure that investments shall be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Investment officers acting in accordance with written procedures and the statement investment policy, and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this plan.

When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

XII. Bond Proceeds

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

XIII. Credit Downgrade

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

XIV. Rating Agency Changes

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

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

XV. Banks and Security Dealer Selection

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

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

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

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

XVI. Maturity and Diversification

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

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

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

final" maturity is not more than five years. The average maturity of the City's short-term portfolio shall not exceed one year.

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

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

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

6. The maximum percentage of the total portfolio that shall be placed at any one time in each of the categories of investment is summarized below.

Security Type	Maximum Allowable Portfolio Percentage						
	100%	50%	40%	30%	25%	20%	15%
US Treasury Notes/Bills	✓						
US Agencies – Fully Backed	✓						
US Agencies – Government Sponsored Entities (GSE)		✓					
LAIF	✓						
Fully collateralized certificates of deposit	✓						
Fully collateralized medium term notes	✓						
Banker's Acceptance (BA)			✓				
Negotiable Certificates of Deposit (NCD)				✓			
Medium Term Notes (MTN) (30 % alone, and no more than 40% when combined with AB category)				✓			
Asset-backed (AB) Securities (20% alone and no more than 40% when combined with the MTN category)						✓	
County Treasurer Pool							✓
Commercial Paper (CP)							✓

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

XVII. Risk Tolerance

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

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

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

1. All investment funds will be placed directly with qualified financial institutions. The City will not deposit or invest funds through third parties or money brokers.
2. All transactions will be executed on a delivery versus payment basis.
3. The City will not enter into reverse repurchase agreements other than for cash flow requirements; nor shall it trade in options on future contracts unless, upon recommendation by the Investment Advisory Committee, such transactions are specifically authorized by the City Council.
4. A competitive bid process, utilizing financial institutions deemed eligible by the Investment Advisory Committee, will be used to place investment purchases. Based on 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:
 - a. number of transactions competitively won
 - b. prompt and accurate confirmation of transactions
 - c. efficient securities delivery
 - d. accurate market information account servicing
5. The Finance Director shall designate an official to manage investments and designate a second official to perform investment management during absences of the primary designee. The Finance Director shall insure that competent investment management is maintained and shall insure that, if both designated investment officials are replaced or are simultaneously absent, any temporary replacement(s) shall be closely supervised, indoctrinated in the requirements of this Statement of Investment Policy, and given written investment procedures regulating the authority to invest in maturities beyond six months by means of appropriate controls and restraining requirements.
6. In order to assist in identifying "qualified financial institutions," the Finance Director shall forward copies of the City's Investment Policy to those financial institutions with which the City is interested in doing business and require written acknowledgement of the Policy.

XVIII. Safekeeping and Custody

To protect against potential fraud and embezzlement, the assets of the City shall be 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.

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

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