



CITY OF
FOLSOM
DISTINCTIVE BY NATURE

CITY OF FOLSOM INVESTMENT POLICY

August 23, 2012

I. Policy

The Investment Policy provides operating guidelines for the investment of City moneys. It is the primary duty of the City officers having investment responsibility to protect, preserve and maintain the cash and investments placed in their trust on behalf of the citizens of the City.

A. Policy Adoption

In accordance with the Folsom Municipal Code, Chapter 3.30.030, and the California Government Code, Section 53646, the City Council shall consider and approve a Statement of Investment Policy at a public meeting. Any modifications made to the investment policy must be approved by the City Council during this process.

B. Delegation of Authority

California Government Code, Section 53607, allows for the delegation of investment authority to the Treasurer of a local agency for a one-year period, and may renew the delegation annually, subject to review. This action may be performed in conjunction with the City Council's adoption of the investment policy, unless otherwise necessary throughout the year.

Authority to manage the City's investment program is derived from Chapters 3.30.050 and 2.11.070 of the Municipal Code. These Chapters grant the authority of the Treasurer to the Finance Director, and identify the head of the finance department as the Finance Director and Chief Financial Officer of the City. The Finance Director may delegate investment program management functions to others.

The Finance Director shall be responsible for all transactions undertaken and shall maintain a system of internal controls to regulate the activities of subordinate officials to whom investment management functions have been delegated.

II. Scope

This investment policy applies to all financial assets of the City of Folsom, including the assets held by the City for the Folsom Redevelopment Agency (RDA) or successor agencies and the Folsom Public Financing Authority (FPPA). These assets are accounted for in the City of Folsom Comprehensive Annual Financial Report and include:

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Enterprise Funds
- Debt Service Funds
- Trust and Agency Funds
- Internal Service Funds

Moneys held by a Trustee or a Fiscal Agent pledged for the payment of bonds, other indebtedness, lease obligations, installment sales, or certificates of participation are governed by the statutory provisions governing the particular issuance of the indebtedness. In the absence of such provisions, this policy will apply.

A. Prudence

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

The standard of prudence to be used by investment officials shall be the *Prudent Investor Standard* as set out in Government Code Section 53600.3. This standard shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

B. Objectives

The City's primary investment objectives, in priority order as per Government Code Section 53600.5, are:

1. Safety

Safety of principal is the primary objective of the investment program. Investment transactions shall be made in a manner that seeks to minimize risk, and ensure the preservation of capital in the overall portfolio.

2. Liquidity

The investment portfolio shall remain sufficiently liquid to enable the City to meet all reasonably anticipated operating requirements.

3. Return on Investments

Investment earnings on the portfolio shall be tertiary to the basic requirements of safety and liquidity.

C. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. These officers and employees shall disclose to the City Manager any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City's investment portfolio. Furthermore, all employees involved in the investment process are required to receive AB1234 Ethics Training per Council Resolution 7756.

Pursuant to Government Code Section 53637, deposits in financial institutions where a member of the City's governing body or employees with investment decision-making authority serve on the board of directors or the specified committees of that financial institution are prohibited.

D. Investment Procedures

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

E. Authorized Financial Institutions and Dealers

The Finance Director shall maintain a list of approved security broker/dealers who are authorized to provide investment services to the City. These broker/dealers must be registered to provide investment services in the State of California and may include primary dealers or regional dealers that qualify under Securities & Exchange Commission rule 15C3-1 (uniform net capital rule). No deposit shall be made except in a qualified public depository as established by State laws.

All financial institutions and broker/dealers who provide investment services to the City must at a minimum submit the following:

1. Proof of Financial Industry Regulatory Authority (FINRA) certification
2. Proof of State of California registration with the Department of Corporations
3. Certification of receipt and agreement with the City's investment policy

Any other information deemed appropriate by the Chief Financial Officer may also be required.

The Finance Director shall annually provide a copy of the current investment policy to all broker/dealers approved to do business with the City. Broker/dealers shall be required to provide a certification acknowledging receipt of the policy, and this certification shall be considered confirmation to comply with the City's policy. The Finance Director will annually review the financial condition, certifications, and registrations of qualified financial institutions and broker/dealers.

F. Authorized and Suitable Investments

1. Authorized Investments

The City of Folsom is authorized to invest in securities allowable under the California State Government Code. Investments that are authorized and suitable for inclusion in the City's investment portfolio are listed in attachment A.

2. Diversification

To mitigate risk in the investment portfolio, the City shall seek to diversify investments by security type and issuer per Folsom Municipal Code Section 3.30.030.

3. Maximum Maturities

The investment portfolio shall be structured so that securities mature to meet the City's anticipated cash flow requirements. The City shall seek to maintain a minimum of 50% of

the investment portfolio in securities with a maturity of one year or less as specified by Municipal Code Section 3.30.020.

Investments with a maturity of more than five-years must be specifically authorized by the City Council or be part of an investment program approved by the legislative body no less than three months prior to the purchase of such an investment as required by Government Code Section 53601.

4. Prohibited Investments

Investments in inverse floaters, range notes or mortgage derived interest-only strip securities are prohibited as set forth in Government Code Section 53601.6. Also prohibited are investments 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 meeting the requirements of Government Code Section 53601. A local agency may hold previously purchased prohibited investments until their maturity dates.

Additionally, no securities may be purchased on margin.

G. Collateralization

Collateralization is required for investments in repurchase agreements. To anticipate market changes and provide a level of security for all funds, a collateralization level of 102% of daily market value of principal and accrued interest is required. Collateral is limited to the following types of securities:

1. United States Treasury securities, certificates of indebtedness or those for which the full faith and credit of the United States is pledged for the payment of principal and interest.
2. Securities issued by United States Federal Agencies or U.S. Government Sponsored Enterprises

H. Safekeeping and Custody

All investment transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities shall be held by a third party custodian designated by the Finance Director and evidenced in writing by the custodian.

I. Internal Controls

The Finance Director shall maintain a written system of internal controls over investments designed to prevent losses of public monies from fraud, error, theft or misuse. The Finance Director shall provide for an annual process of independent review by an external auditor to ensure compliance with the internal control system. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial Safekeeping
- Avoidance of physical delivery securities

- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments
- Dual authorization of investment transactions
- Staff training
- Review, maintenance, and monitoring of security procedures

J. Performance Standards

The investment portfolio shall be designed to equal or exceed the rate of return of the State's Local Agency Investment Fund (LAIF) throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and cash flow needs, per Municipal Code Section 3.30.030. The City's investment strategy is generally passive, and securities shall not be sold prior to maturity with the following exceptions:

1. To minimize the loss of principal
2. To swap a security to improve quality, yield or portfolio target duration
3. To meet portfolio liquidity needs

K. Reporting

The Finance Director shall provide investment reports to the City Council on a quarterly basis. The investment reports shall include the elements required by California Government Code Section 53646 and Municipal Code Section 3.30.030. In addition, the Finance Director shall monthly submit a report of transactions to the City Council as prescribed by Government Code Section 53607.

ATTACHMENT A

ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE (AS OF JANUARY 1, 2011)^A APPLICABLE TO ALL LOCAL AGENCIES^B

See "Table of Notes" for footnotes related to this table.

INVESTMENT TYPE	MAXIMUM MATURITY ^C	MAXIMUM SPECIFIED % OF PORTFOLIO ^D	MINIMUM QUALITY REQUIREMENTS
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations—CA And Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S Agency Obligations	5 years	None	None
Bankers' Acceptances	180 days	40% ^E	None
Commercial Paper— Select Agencies ^F	270 days	25% of the agency's money ^G	"A-1" if the issuer has issued long-term debt it must be rated "A" without regard to modifiers ^H
Commercial Paper— Other Agencies ^I Negotiable	270 days	40% of the agency's money ^J	"A-1" if the issuer has issued long-term debt it must be rated "A" without regard to modifiers ^H
Certificates of Deposit	5 years	30% ^K	None
CD Placement Service	5 years	30% ^K	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements and Securities Lending Agreements	92 days ^L	20% of the base value of the portfolio	None ^M
Medium-Term Notes ^N	5 years	30%	"A" Rating
Mutual Funds And Money Market Mutual Funds	N/A	20% ^O	Multiple ^{P,Q}
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	"AA" Rating ^R
Bank/Time Deposits	5 years	None	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	Multiple ^S
Local Agency Investment Fund (LAIF)	N/A	None	None

- A. Sources: Sections 16429.1, 53601, 53601.8, 53635, 53635.2, and 53638.
- B. Municipal Utilities Districts have the authority under the Public Utilities Code Section 12871 to invest in certain securities not addressed here.
- C. Section 53601 provides that the maximum term of any investment authorized under this section, unless otherwise stated, is five years. However, the legislative body may grant express authority to make investments either specifically or as a part of an investment program approved by the legislative body that exceeds this five year maturity limit. Such approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.
- D. Percentages apply to all portfolio investments regardless of source of funds. For instance, cash from a reverse repurchase agreement would be subject to the restrictions.
- E. No more than 30 percent of the agency's money may be in bankers' acceptances of any one commercial bank.
- F. "Select Agencies" are defined as a "city, a district, or other local agency that do[es] not pool money in deposits or investment with other local agencies, other than local agencies that have the same governing body."
- G. No more than 10 percent of the agency's money may be invested in any one issuer's commercial paper.
- H. Issuing corporation must be organized and operating within the U.S. and have assets in excess of \$500 million.
- I. "Other Agencies" are counties, a city and county, or other local agency "that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body." Local agencies that pool exclusively with other local agencies that have the same governing body must adhere to the limits set for "Select Agencies," above.
- J. No more than 10 percent of the of the agency's money may be invested in the commercial paper of any one corporate issuer.
- K. No more than 30 percent of the agency's total funds may be invested in CDs authorized under Sections 53601.8, 53635.8, and 53601(i).
- L. Reverse repurchase agreements or securities lending agreements may exceed the 92-day term if 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 dates of the same security.
- M. Reverse repurchase agreements must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has a significant relationship with the local agency. The local agency must have held the securities used for the agreements for at least 30 days.
- N. "Medium-term notes" are defined in Section 53601 as "all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the U.S. or by depository institutions licensed by the U.S. or any state and operating within the U.S."
- O. No more than 10 percent invested in any one mutual fund.
- P. A mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years experience investing in instruments authorized by Sections 53601 and 53635.

- Q. *A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years experience investing in money market instruments with assets under management in excess of \$500 million.*
- R. *Issuer must have an "A" rating or better for the issuer's debt as provided by a nationally recognized rating agency.*
- S. *A joint powers authority pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years experience investing in instruments authorized by Section 53601, subdivisions (a) to (o).*