

**CITY OF REDDING, CALIFORNIA  
COUNCIL POLICY**

<b>SUBJECT</b>	<b>RESOLUTION NUMBER</b>	<b>POLICY NUMBER</b>	<b>EFFECTIVE DATE</b>	<b>PAGE</b>
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**BACKGROUND**

The Treasurer or Chief Fiscal Officer shall annually render to the legislative body of the local agency and any oversight committee a statement of investment policy, which the legislative body of the local agency shall consider at a public meeting. Any changes in the policy shall also be considered by the legislative body of the local agency at a public meeting. Government Code §53646(a).

It is in the best interest of the City to have the Treasurer's Investment Policy adopted by resolution in order to have consistent guidelines for reporting and updating procedures relating to the investment of City funds.

**PURPOSE**

The City Treasurer, who has been given the authority by Council to invest and reinvest City funds, should have clear guidelines in place for reporting this activity to Council.

Therefore, the Investment Policy is designed to provide guidelines for the prudent investment of the City's idle funds and reporting of the same. Reviewing, amending or updating of this policy shall be conducted no less than once a year.

**POLICY**

The City Treasurer has the fiduciary responsibility to maximize the productive use of assets entrusted to his/her care and to invest and manage those funds with reasonable care, skill, and caution. Therefore, the City must operate its idle cash investment pool under the "prudent investor standard" set forth in California Probate Code §16047. This affords the City a broad spectrum of investment opportunities as long as the investment is deemed prudent and is allowable under current legislation of the State of California (Government Code §53600 *et seq.*).

The City recognizes that it has an obligation to be aware of the possible social and political impacts of its investments and will act responsibly if issues of this nature arise.

Priority will be given to investments that promote community economic development (*i.e.*, dealing with local financial institutions, *etc.*) provided that the investment selection criteria is met and yield is not significantly impacted. The City Treasurer shall strive, whenever possible, to make investments that benefit the local area.

The City Treasurer shall strive to maintain the level of investment of all idle funds as near 100% as possible. Concurrently, the City Treasurer shall layer investment maturities to meet anticipated cash needs and attempt to maximize investment yields while satisfying the guidelines herein presented.

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**ADMINISTRATION/RESPONSIBILITY**

The City Treasurer or designee is responsible for idle cash management. Investments shall be made by the individual so directed by the Treasurer. Cash flow projections shall be provided by the Finance Division. Each investment must be authorized by the Treasurer or Deputy Treasurer in Treasurer's absence. The Director of Finance or designee shall review each investment transmittal to determine if it complies with the allowable investments section of the City Investment Policy and for the purpose of financial tracking.

In addition to the City of Redding, Redding Area Bus Authority Bylaws identify the City Treasurer as the designated "Treasurer". Investment of these entity idle funds are directed and administered by the City Treasurer.

The Director of Finance designated as "Treasurer" by resolution for select Entities, is responsible for cash management of the Successor Agency to the Redding Redevelopment Agency and the Housing Authority. Investment of entity idle funds are directed by the Director of Finance and administered by the City Treasurer.

Trustee accounts, as well as being governed by the Government Code, shall have guidelines included in their contracts as to the strength of financial institutions in which the Trustee may choose to invest City funds. As designated in the long-term debt resolutions, the Director of Finance or designee shall establish guidelines for Trustee contracts. The Director of Finance shall monitor the monthly accounts, and the account balances shall be reported monthly by the City Treasurer to the City Council as part of the Treasurer's Report.

The City Treasurer shall hold an Investment Policy Advisory Committee meeting once a year, or as needed, for the purpose of reviewing and updating this Policy. The Investment Advisory Committee is comprised of a minimum of five persons, identified as follows: the City Treasurer; two members from the following eligible positions: City Manager, Assistant City Manager, Deputy City Manager, or the Director of Finance or designee; plus two community members representing the finance industry.

**ALLOWABLE INVESTMENTS**

The City complies with Government Code §53600 *et seq.*, which is incorporated herein by this reference.

**CRITERIA FOR SELECTING INVESTMENTS IN PRIORITY ORDER**

1. Safety - The safety and risk associated with an investment refers to the potential loss of principal and/or interest. There are basically two types of risk in cash investment. The first, credit risk, refers to the financial strength of the entity that is obligated to repay the investment. The second, principal protection, refers to the potential loss of principal due to market fluctuations or due to an early liquidation of the investment. In order for the City to fulfill its public fiduciary responsibility in regard to the funds entrusted to it, the City must invest in only those securities which present no substantial threat to principal

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2. Liquidity - This is the marketability of an investment or the ease with which it can be converted to cash. Generally, the more liquid or marketable the security, the lower the yield. The importance of this factor in investment selection is dependent upon the possibility of the circumstances arising that would necessitate the investment being converted to cash before maturity.

Funds must be available in varying amounts to meet the City’s daily cash needs. The City, therefore, shall structure its investments in such a manner as to provide for its daily cash needs while, at the same time, participating in longer term<sup>1</sup> higher yield instruments with cash that is not currently restricted from expenditure or for which there is not an immediate need.

3. Yield - The yield is the earnings an investment provides. It is usually expressed as an annual rate of return (the percentage annual earnings are of the invested principal). Since obtaining investment earnings is the motivation for investing, yield is a significant factor in all investment transactions; however, yield shall become a consideration only after all other investment criteria is satisfied. Whenever possible, interest is to be paid to the City Treasurer monthly.
4. LAIF - When a City LAIF account has reached the maximum deposit and/or to accommodate transfer needs, the City Treasurer, may at his/her discretion, transfer City funds into an Entity LAIF account<sup>2</sup>. In this case, the Treasurer will keep a separate set of books for City and Entity investments and will allocate the interest earnings proportionately.

**INVESTMENT LIMITATIONS**

Security purchases and holdings shall be maintained within the statutory limits imposed by California Government Code §53600 *et seq.* In addition, the following restrictions are imposed:

- a) Investment securities shall not be purchased by means of leverage; and
- b) If any investment in commercial paper, as defined by California Government Code §53601(h), downgrades below A2 by Moody’s Investors Service, Inc., A by Standard & Poor’s Corporation or A by Fitch, such commercial paper investment shall be sold within a reasonable amount of time to minimize the possible loss of principal.

<sup>1</sup>Government Code §53601 restricts the term remaining to maturity for any investment to five (5) years.

<sup>2</sup>The term “Entity” refers to those public agencies (*i.e.*, Redding Area Bus Authority, Successor Agency to the Redding Redevelopment Agency, and Redding Housing Authority) related to the City of Redding but separate by law, whose bank accounts and investments the City Treasurer reconciles and reports monthly in the Treasurer’s Report provided to City Council. The “Treasurer” of each Entity (see Administration/Responsibility) is responsible for the investment of these Entities’ idle cash, in accordance with their respective investment policies.

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**COLLATERAL REQUIREMENTS**

Pursuant to Government Code §53652, collateral requirements to secure the City of Redding's active or inactive deposits are as follows:

- a) 110% if backed by those eligible securities described by Government Code §53651, excluding those securities set forth in Government Code §53651(m) and §53651(p);
- b) 150% if backed by those eligible securities described by Government Code §53651(m); and
- c) 105% if backed by those eligible securities described by Government Code §53651(p);

Pursuant to Government Code §53653, the City of Redding may waive security for that portion of any deposit that is insured pursuant to federal law.

**WITH WHOM TO TRANSACT**

The City Treasurer or designee shall make investment transactions only with financial institutions, national firms, or security dealers that are reputable and that exhibit financial stability. In addition, the security dealers must be able to meet the requirements for classification as primary dealers with the New York Federal Reserve Bank or currently licensed by the State of California. The Request For Information ("RFI") shall be utilized as a significant factor in the selection and periodic review of the institutions and/or individuals utilized for investment transactions.

**COMPETITIVE OFFERS**

The City Treasurer or designee shall obtain at least three (3) offers from investment officers or broker/dealers including the potential yield for each security the City intends to purchase. Each investment officer or broker/dealer shall have on file a current RFI.

**DIVERSIFICATION**

The portfolio shall contain a variety of security types, issuers, and maturities.

**SAFEKEEPING**

Investment securities purchased by the City shall be held in the name of the City of Redding, delivered to the City, or delivered to the City's Trust and Custody Officer with offices within the State of California. Investment purchases shall be delivery versus payment.

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**SELLING SECURITIES PRIOR TO MATURITY**

Losses may be acceptable on a sale and should be taken if the reinvested proceeds will generate earnings (net of the resultant capital loss or early withdrawal penalty) that are greater than the earnings that would be generated if the existing investment were held to maturity. Further, securities may be sold at a loss prior to maturity for liquidity needs.

Gains are acceptable on a sale prior to maturity of the investment and may be taken if the reinvested proceeds and capital gains will generate earnings that are greater than the loss of opportunity should the investment be held to maturity. Further, securities may be sold at a gain prior to maturity for liquidity needs.

**REPORTING**

The City Treasurer shall provide a monthly report to the City Council and the City Manager. This report shall show how investments have been made and whether the investments are in conformance with the Investment Policy. The monthly report shall include information which demonstrates that the City's expenditure requirements can be met in the following six (6) months and shall provide the investment information required by Government Code §53646.

**DEBT PROCEEDS**<sup>3</sup>

Notwithstanding any other provisions to the contrary, the proceeds from a debt issuance shall be invested in "permitted investments" as defined by the trust agreement associated with the debt issue (which may include investment in the State Pool, Local Agency Investment Fund or LAIF), provided that those permitted investments have a rating of no less than A- by Standard & Poor's Corporation or A3 by Moody's Investors Service. The investment of proceeds from a debt issuance shall also be in compliance with the requirements imposed by rating agencies, bond insurers, and federal and state law.

The Investment Policy lists the criteria to be utilized for the selection of investments and priority considerations. For purposes of this section, the term "Treasurer" is that individual defined in the bond documents and amendments of the debt issue. The Treasurer is subject to the applicable provisions of any indenture, trust agreement, or resolution providing for a trustee or other fiscal agent. The individual designated as "Treasurer" by the bond documents or amendments of the debt issue shall have custody of all the money of the issuing authority from whatever source and, if the issuing authority is operated pursuant to a Joint Powers Agreement, then that person shall have the powers, duties, and responsibilities specified by Government Code §6505.5.

<sup>3</sup>Debt proceeds section added by Resolution No. 91-230 effective June 13, 1991.

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1. Due Diligence – It shall be the responsibility of the Treasurer to structure and monitor the bond proceeds investment process and to verify that fees paid to brokers are reasonable and commensurate with the work performed. The Treasurer shall consult with bond counsel and financial advisors, when applicable, during the development of the bond issue documents and shall be responsible for determining whether the proceeds shall be actively or passively invested as a result of Federal regulations that may govern the issue.
  
2. Conflicts of Interest – Underwriters and financial advisors may not receive compensation, finder’s fees, honoraria or gifts from parties involved in investment transactions. Subject to any restrictions imposed by Federal regulations, the bond underwriter or advisor may bid for investment funds in an openly competitive bidding, but not as sole source broker or intermediary. If a financial advisor or underwriter also acts in an investment capacity, the firm shall certify that its fees (a) do not exceed the fees it customarily charges for investment activity and (b) include no compensation for services provided in the underwriting.
  
3. Avoidance of Abuses – The City will refrain from abusive practices in the investment of bond proceeds and will obtain market price instruments. For bond issues to which Federal yield or regulatory restrictions apply, the primary objective shall be to prudently obtain satisfactory market yields and to minimize the costs associated with investment of such funds. The Treasurer shall obtain full disclosure of brokerage and other fees associated with investment of bond proceeds and shall require written disclosure of any payments made by investment firms or brokers to third parties associated with the City in the issuance of its bonds.
  
4. Arbitrage Record Keeping – The Treasurer shall establish systems and procedures to comply with Federal regulations governing the investment of bond proceeds, including investment record keeping system

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Amended June 13, 1991, by Resolution No. 91-230  
Amended April 7, 1992, by Resolution No. 92-143  
Amended March 16, 1993, by Resolution No. 93-085  
Amended April 5, 1994, by Resolution No. 94-080  
Amended April 18, 1995, by Resolution No. 95-102  
Amended February 4, 1997, by Resolution No. 97-019  
Amended December 1, 1998, by Resolution No. 98-170  
Amended February 15, 2000, by Resolution No. 2000-37  
Amended February 19, 2002, by Resolution No. 2002-32  
Amended February 18, 2003, by Resolution No. 2003-21  
Amended February 17, 2004, by Resolution No. 2004-23  
Amended March 15, 2005, by Resolution No. 2005-34  
Amended February 21, 2006, by Resolution No. 2006-21  
Amended September 5, 2006, by Resolution No. 2006-168  
Amended September 4, 2007, by Resolution No. 2007-186  
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