RESOLUTION NO. 09-89

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LANCASTER, CALIFORNIA, RESCINDING RESOLUTION NO. 09-09 IN ITS ENTIRETY, AND ESTABLISHING A POLICY FOR THE INVESTMENT OF PUBLIC FUNDS FOR THE CITY OF LANCASTER.

WHEREAS, investment income is a major source of revenue to the City of Lancaster and one which requires protection from loss while maximizing yield; and

WHEREAS, for several years the City has produced monthly investment reports; and

WHEREAS, the City of Lancaster is required by State law to adopt an investment policy; and

WHEREAS, from time to time it becomes necessary to update the City of Lancaster Investment Policy.

NOW, THEREFORE, BE IT RESOLVED AS FOLLOWS:

Section 1. Resolution No. 09-09 is hereby rescinded in its entirety.

Section 2. The City of Lancaster's Investment Policy, as specified in Exhibit A, is hereby adopted.

PASSED, APPROVED, and ADOPTED this _____ day of _____________, 2009, by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

ATTEST:

____

GERI K. BRYAN, CMC
City Clerk, City of Lancaster

APPROVED:

____

R. REX PARRIS
Mayor, City of Lancaster

STATE OF CALIFORNIA }
COUNTY OF LOS ANGELES }
CITY OF LANCASTER }

CERTIFICATION OF RESOLUTION
CITY COUNCIL

I, ______________________________, ___________________________________City of Lancaster, CA do hereby certify that this is a true and correct copy of the original Resolution No. 09-89, for which the original is on file in my office.

WITNESS MY HAND AND THE SEAL OF THE CITY OF LANCASTER, on this _________ day of __________________, ___________.

____

(seal)

City of Lancaster
Investment Policy

The Investment Policy of the City of Lancaster (the City), in conformance with State laws, is intended to provide guidelines to the City Treasurer for the prudent investment of the City's temporary idle cash not governed by bond indentures or bond resolutions, and to outline policies for maximizing the efficiency of the City's cash management system. All City funds will be invested in accordance with this Investment Policy and with applicable sections of the California Government Code.

This Investment Policy was adopted by the City Council the City of Lancaster on __________, 2009. It replaces any previous investment policy or investment procedures of the City.

SCOPE

This Investment Policy applies to the investment of all cash and various funds of the City as identified in the City's Comprehensive Annual Financial Report, with the exception of those cash assets governed by bond indentures, bond resolutions, employees' retirement and deferred compensation funds.

All cash shall be pooled for investment purposes. The investment income derived from the pooled investment account shall be allocated to the contributing funds based upon the proportion of the respective average balances relative to the total pooled balance in the investment portfolio. Investment income shall be distributed to the individual funds at least annually.

OBJECTIVES

The City's cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the City to invest funds to the fullest extent possible within the guidelines of this Investment Policy. The City attempts to achieve the highest yield obtainable through a diversified portfolio only after meeting the criteria established for safety and liquidity in that order. The principal investment objectives of the City are:

1. Preservation of capital and protection of investment principal.
2. Maintenance of sufficient liquidity to meet anticipated cash flows.
3. Attainment of a market rate of return.
4. Diversification to avoid incurring unreasonable market risks.
5. Compliance with the City's Municipal Code and with all applicable City resolutions, California statutes and Federal regulations.

DELEGATION OF AUTHORITY

The management responsibility for the City's investment program is delegated annually by the City Council to the City Treasurer (the Treasurer) in accordance with California Government Code Section 53607. The City's Finance Director serves as the Treasurer. The Treasurer may delegate the authority to conduct investment transactions and to manage the operation of the investment portfolio to the Deputy City Treasurer and to other specifically authorized employees. The Treasurer shall maintain a list of persons authorized to transact securities business for the City. No person may engage in an investment transaction except as expressly provided under the terms of this Investment Policy.

The Treasurer shall develop administrative procedures and internal controls, consistent with this Investment Policy, for the operation of the City's investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the City.

The City may engage the support services of outside investment advisors in regard to its investment program, so long as it can be clearly demonstrated that these services produce a net financial advantage or necessary financial protection of the City's financial resources.

PRUDENCE

The standard of prudence to be used for managing the City's investments shall be California Government Code Section 53600.3, the prudent investor standard, which states that "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."

The City's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City recognizes that no investment is totally without risk and that the investment activities of the City are a matter of public record. Accordingly, the City recognizes that occasional measured losses may occur in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the City.

The Treasurer and authorized employees acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that the deviations from expectations are reported in a timely fashion to the City Council and appropriate action is taken to control adverse developments.

ETHICS AND CONFLICTS OF INTEREST

Elected officials and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or that could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Employees involved in the investment process shall disclose to the Treasurer any business interests they have in financial institutions that conduct business with the City and they shall subordinate their personal investment transactions to those of the City. In addition, the Treasurer and other Designated Employees shall comply with the reporting requirement of the City's Conflict of Interest Code, and shall file a Statement of Economic Interests each year in accordance with California Government Code Section 87203 and regulations of the Fair Political Practices Commission.

AUTHORIZED SECURITIES AND TRANSACTIONS

All investments and deposits of the City shall be made in accordance with California Government Code Sections 16429.1, 53600-53609 and 53630-53686, except that in accordance with California Government Code Section 5903(e), proceeds of bonds and any moneys set aside or pledged to secure payment of the bonds may be invested in securities or obligations described in the ordinance, resolution, indenture, agreement, or other instrument providing for the issuance of the bonds. Any amendments to these code sections will be assumed to be part of this Investment Policy immediately upon being enacted. However, in the event that such amendments conflict with this Investment Policy and past City investment practices, the City may delay adherence to the new requirements when it is deemed in the best interest of the City to do so. In such instances, after consultation with the City's attorney, the Treasurer will present a recommended course of action to the City Council for approval.

The City has further restricted the eligible types of securities and transactions as follows:

1. United States Treasury bills, notes, bonds, or strips with a final maturity not exceeding five years from the date of trade settlement.

2. Federal Instrumentality (government sponsored enterprise) debentures, discount notes, callable and step-up securities, with a final maturity not exceeding five years from the date of trade settlement, issued by the following only: Federal Home Loan Banks (FHLB), Federal National Mortgage Association (FNMA), Federal Farm Credit Banks (FFCB) and Federal Home Loan Mortgage Corporation (FHLMC). Federal Instrumentality securities shall be rated at least AAA or the equivalent by a nationally recognized statistical-rating organization (NRSRO) at the time of purchase.

3. Repurchase Agreements with a final termination date not exceeding 30 days collateralized by U.S. Treasury obligations or Federal Instrumentality securities listed in items 1 and 2 above with the maturity of the collateral not exceeding ten years. For the purpose of this section, the term collateral shall mean purchased securities under the terms of the City's approved Master Repurchase Agreement. The purchased securities

shall have a minimum market value including accrued interest of 102% of the dollar value of the funds borrowed. Collateral shall be held in the City's custodian bank and the market value of the collateral securities shall be marked-to-the-market daily.

Repurchase Agreements shall be entered into only with broker/dealers and who are recognized as Primary Dealers with the Federal Reserve Bank of New York or have a Primary Dealer within their holding company structure. Repurchase Agreement counterparties shall have a short-term credit rating of at least A-1 or the equivalent and a long-term credit rating of at least A or the equivalent. Repurchase agreement counterparties shall execute a City approved Master Repurchase Agreement. The Treasurer shall maintain a copy of the City's approved Master Repurchase Agreement along with a list of broker/dealers who have executed same.

4. Prime Commercial Paper with a maturity not exceeding 270 days from the date of trade settlement with the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either sub-paragraph A. or sub-paragraph B. below:

    A. The entity shall (1) be organized and operating in the United States as a general corporation, (2) have total assets in excess of $500 million and (3) have debt other than commercial paper, if any, that is rated at least A or the equivalent by a NRSRO.

    B. The entity shall (1) be organized within the United States as a special purpose corporation, trust, or limited liability company, (2) have program-wide credit enhancements, including, but not limited to, over-collateralization, letters of credit or surety bond and (3) have commercial paper that is rated at least A-1 or the equivalent by a NRSRO.

    No more than 10% of the City's total portfolio shall be invested in the commercial paper of any one issuer, and the aggregate investment in commercial paper shall not exceed 25% of the City's total portfolio.

5. Eligible Banker's Acceptances with a maturity not exceeding 180 days from the date of trade settlement, issued by a FDIC insured commercial bank with combined capital and surplus of at least $250 million, whose senior long-term debt is rated at least A or the equivalent by a NRSRO at the time of purchase. No more than 2% of the City's total portfolio shall be invested in banker's acceptances of any one issuer, except that a banker's acceptance issued by a bank authorized to handle the City's daily primary banking needs may, when aggregated with the funds in demand deposits in all such authorized banks, be in an amount up to 10% of the City's total portfolio. The aggregate investment in banker's acceptances shall not exceed 15% of the City's total portfolio.

6. Medium-Term Notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States, with a final maturity not exceeding five years from the date of trade settlement, and rated at least AA- or the equivalent by a NRSRO. The aggregate investment in medium-term notes shall not exceed 10% of the City's total

portfolio. In addition, AAA rated FDIC-guaranteed corporate bonds are herein authorized, with the aforementioned diversification and maturity requirements.

7. Non-negotiable Certificates of Deposit with maturities not exceeding five years, in FDIC insured state or nationally chartered banks or savings banks with a California branch office and that qualify as a depository of public funds in the State of California as defined in California Government Code Section 53630.5. Certificates of Deposit in amounts exceeding FDIC insurance coverage shall be secured in accordance with California Government Code Section 53652. The aggregate amount invested in Non-Negotiable Certificates of Deposit shall not exceed 25% of the City's total portfolio.

8. State of California's Local Agency Investment Fund (LAIF), in accordance with California Government Code Section 16429.1.

9. Money Market Funds registered under the Investment Company Act of 1940 that are "no-load" (meaning no commission or fee shall be charged on purchases or sales of shares); have a constant net asset value per share of $1.00; invest only in the securities and obligations authorized in the applicable California statutes and have a rating of at least AAA or the equivalent by at least two NRSROs. No more than 10% of the City's total portfolio shall be invested in money market funds of any one issuer, and the aggregate investment in money market funds shall not exceed 20% of the City's total portfolio.

The foregoing list of authorized securities and transactions shall be strictly interpreted. Any deviation from this list must be preapproved by resolution of the City Council.

PORTFOLIO MATURITIES AND LIQUIDITY

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities. The City will not invest in securities maturing more than five years from the date of trade settlement, unless the City Council has by resolution granted authority to make such an investment at least three months prior to the date of investment.

Notwithstanding the above, reserve funds relating to bond issues may be invested in securities for more than five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

DIVERSIFICATION

The City will diversify investment instruments to avoid incurring unreasonable risks in over investing in specific instruments, individual financial institutions or maturities. The following portfolio maximums shall apply:

Authorized Investment	Portfolio Maximum	Maximum Maturity
U.S. Treasury Securities	No limit	5 Years
Federal Instrumentality Securities	No limit	5 Years
Repurchase Agreements	No limit	30 Days
Prime Commercial Paper	25%, 10% any one issuer	270 Days
Banker's Acceptances	2%*	180 Days
Medium-Term Notes	10%	5 Years
Certificates of Deposit	25%	5 Years
LAIF	No limit	N/A
Money Market Funds	20%, 10% any one issuer	N/A

* Banker's acceptances issued by a bank authorized to handle the City's daily primary banking needs may, when aggregated with the funds in demand deposits in all such authorized banks, be in an aggregate amount up to 10% of the City's total portfolio.

SELECTION OF BROKER/DEALERS

The Treasurer shall maintain a list of broker/dealers approved for investment purposes, and it shall be the policy of the City to conduct transactions only with those brokers and the firms they represent. Each approved broker/dealer must possess an authorizing certificate from the California Commissioner of Corporations as required by Section 25210 of the California Corporations Code. The firms they represent must:

1. be recognized as Primary Dealers by the Federal Reserve Bank of New York or have a Primary Dealer within their holding company structure, or
2. report voluntarily to the Federal Reserve Bank of New York, or
3. qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

Each authorized broker/dealer shall be required to submit and annually update a City approved Broker/Dealer Information Request form which includes the firm's most recent audited financial statements. The Treasurer shall maintain a list of the broker/dealers that have been approved by the City, along with each firm's most recent broker/dealer Information Request form.

The City may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in Item 4 of the Authorized Securities and Transactions section of this Investment Policy.

COMPETITIVE TRANSACTIONS

Each investment transaction shall be competitively transacted with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction and their bid and offering prices shall be recorded.

If the City is offered a security for which there is no other readily available competitive offering, then the Treasurer will document quotations for comparable or alternative securities.

SELECTION OF BANKS

The Treasurer shall maintain a list of banks approved to provide depository and other banking services for the City. To be eligible for authorization, a bank shall qualify as a depository of public funds in the State of California as defined in California Government Code Section 53630.5, shall be a member of the FDIC and shall secure all deposits exceeding FDIC insurance coverage in accordance with California Government Code Section 53652.

SAFEKEEPING AND CUSTODY

The Treasurer shall select a bank to provide safekeeping and custodial services for the City, in accordance with the provisions of Section 53608 of the California Government Code. A City approved Safekeeping Agreement shall be executed with the custodian bank prior to utilizing that bank's safekeeping services. The custodian bank will be selected on the basis of its ability to provide satisfactory safekeeping services and the competitive pricing of them.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. All securities shall be perfected in the name of the City. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities, except non-negotiable Certificates of Deposit, Money Market Funds and LAIF, will be delivered by either book entry or physical delivery and will be held by the City's custodian bank, its correspondent bank or its Depository Trust Company (DTC) participant account.

All Fed wireable book entry securities shall be held in the Federal Reserve system in a customer account for the custodian bank which will name the City as "customer."

All DTC eligible securities shall be held in the custodian bank's DTC participant account and the custodian bank shall provide evidence that the securities are held for the City as "customer."

All non-book entry (physical delivery) securities shall be held by the custodian bank or its correspondent bank and the custodian bank shall provide evidence that the securities are held by the bank for the City as "customer."

INTERNAL CONTROL

The Treasurer shall provide for interim and annual review of the City's investment activities by an external independent auditor. This review will provide internal control by assuring compliance with the City's investment policies and procedures.

PORTFOLIO PERFORMANCE

The investment portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. The performance of the City's investments shall be compared to the average yield on the U.S. Treasury security that most closely corresponds to the portfolio's actual weighted average effective maturity. When comparing the performance of the City's portfolio, its rate of return will be computed net of all fees and expenses.

REPORTING

Monthly, the Treasurer shall submit to the City Council a report of the City's investment portfolio. The report shall be prepared and submitted in accordance with California Government Code Section 53646 and shall include the deposit and investment risk disclosures required by Statement No. 40 of the Governmental Accounting Standards Board.

POLICY REVIEW

The Treasurer shall review this Investment Policy annually. Any modifications thereto shall be approved by resolution of the City Council.

GLOSSARY OF SELECTED TERMS

Benchmark
A passive index used to compare the performance, relative to risk and return, of an investor's portfolio.

Cash Flow
A comparison of cash receipts (revenues) to required payments (debt service, operating expenses, etc.).

Credit Risk
The chance that an issuer will be unable to make scheduled payments of interest and principal on an outstanding obligation. Another concern for investors is that the market's perception of a corporation's credit will cause the market value of a security to fall, even if default is not expected.

Credit Rating
Various alphabetical and numerical designations used by institutional investors, Wall Street underwriters, and commercial rating companies to give relative indications of bond and note creditworthiness. Standard & Poor's and Fitch Ratings use the same system, starting with their highest rating, of AAA, AA, A, BBB, BB, B, CCC, CC, C, and D for default. Moody's Investors Service uses Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C, and D. Each of the services use pluses (+), minuses (-), or numerical modifiers to indicate steps within each category. The top four letter categories are considered investment grade ratings.

Duration
A measure of the timing of cash flows to be received from a security that provides the foundation for a measure of the interest rate sensitivity of a bond. Duration is an elasticity measure and represents the percentage change in price divided by the percentage change in interest rates. A high duration measure indicates that for a given level of movement in interest rates, prices of securities will vary considerably.

Fiduciary
An individual who holds something in trust for another and bears liability for its safekeeping.

Investment Oversight Committee
A committee of three to eleven members formed under *Government Code Section 27131* to monitor and review a county's investment policy by causing an annual audit and discussing its finding at an open meeting. Although cities and other local agencies are not required to compose an investment oversight committee, the State Legislature has declared that all local agencies "should participate in reviewing the policies that guide the investment of those funds."

Liquidity
The ease with which an investment may be converted to cash, either by selling it in the secondary market or by demanding its repurchase pursuant to a put or other prearranged agreement with the issuer or another party.

Liquidity Risk
The chance that a security, sold prior to maturity, will be sold at a loss of value. For a local agency, the liquidity risk of an individual investment may not be as critical as how the overall liquidity of the portfolio allows the agency to meet its cash needs.

Market Risk
The chance that the value of a security will decline as interest rates rise. In general, as interest rates fall, prices of fixed income securities rise. Similarly, as interest rates rise, prices fall. Market risk also is referred to as systematic risk or risk that affects all securities within an asset class similarly.

Maturity
The stated date on which all or a stated portion of the principal amount of a security becomes due and payable.

Net Present Value
An amount that equates future cash flows with their value in present terms.

Par Amount or Par Value
The principal amount of a note or bond which must be paid at maturity. Par, also referred to as the "face amount" of a security, is the principal value stated on the face of the security. A par bond is one sold at a price of 100 percent of its principal amount.

Pooled Investment
A market institution authorized under various sections of state law that represents the combined deposits of more than one local agency and pays returns based upon each local agency's share of investment in the pool.

Portfolio
The combined holdings of all investment assets held by an investor.

Principal Amount
The face amount or par amount of a bond or issue of bonds payable on stated dates of maturity.

Put
The ability of a holder of an investment security to sell at a specified time and for a specified price the security back to the issuer or prior holder.

Return
The principal plus interest on an investment or portfolio of investments. In certain unfavorable market environments or due to risk factors, income derived from principal and interest may be less than the original amount invested.

Risk
The uncertainty of maintaining the principal or interest associated with an investment due to a variety of factors.

Yield
For the purposes of this publication, return and yield are synonymous.

GLOSSARY OF INVESTMENT INSTRUMENTS

Asset-Backed Securities
Securities that are supported by pools of assets, such as installment loans or leases, or by pools of revolving lines of credits. Asset-backed securities are structured as trusts in order to perfect a security interest in the underlying assets.

Bank Note
A senior, unsecured, direct obligation of a bank or U. S. branch of a foreign bank.

Banker's Acceptance
Normally, a short-term bill of exchange that is accepted as payment by banks engaged in financing trade of physical assets or merchandise.

Bond
A debt obligation of a firm or public entity. A bond represents the agreement to repay the debt in principal and, typically, in interest on the principal.

Callable Security
An investment security that contains an option allowing the issuer to retire the security prior to its final maturity date.

Certificate of Deposit
A short-term, secured deposit in a financial institution that usually returns principal and interest to the lender at the end of the loan period. Certificates of Deposit (CDs) differ in terms of collateralization and marketability. Those appropriate to public agency investing include:

Negotiable Certificates of Deposit – Generally, short term debt instruments that usually pay interest and are issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. The majority of negotiable CDs mature within six months while the average maturity is two weeks. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor).

Non-Negotiable Certificates of Deposit – CDs that carry a penalty if redeemed prior to maturity. A secondary market does exist for these non-negotiable CDs, but include a transaction cost that reduces returns to the investor. Non-negotiable CDs issued by banks and savings and loans are insured by the Federal Deposit Insurance Corporation up to the amount of $100,000, including principal and interest. Amounts deposited above this amount may be secured with other forms of collateral through an agreement between the investor and the issuer. Collateral may include other securities including Treasuries or agency securities such as those issued by the Federal National Mortgage Association.

Commercial Paper
A short-term, unsecured promissory note issued by a large corporation.

Corporate Notes and Bonds
Debt instruments, typically unsecured, issued by corporations, with original maturities in most cases greater than one year and less than ten years.

Federal Agency and Instrumentality Obligations
Obligations issued by a government-sponsored entity or a federally regulated institution.

Mortgage Pass-Through Obligations
Securities that are created when residential mortgages (or other mortgages) are pooled together and undivided interests or participations in the stream of revenues associated with the mortgages are sold.

Municipal Notes, Bonds, and Other Obligations
Obligations issued by state and local governments to finance capital and operating expenses.

Notes
Debt obligations of a firm or public entity, usually maturing in less than ten years.

Repurchase Agreements
From the perspective of a local agency, the short term, often overnight, purchase of securities with an agreement to resell the securities at an agreed upon price.

Reverse Repurchase Agreements
Differs from a repurchase agreement in the sense that a reverse repurchase agreement is an agreement to sell securities in return for cash with an agreement to repurchase the securities at an agreed upon price.

State and Local Investment Pools
The combined deposits of state and local agencies organized and operated by a state treasurer or a local official. These pools operate much like a mutual fund, with local agencies investing money together in order to increase efficiency and reduce costs.

State Noted, Bonds, and Warrants
Obligations of the State of California or another state government with different maturity lengths.

Zero-Interest Bond
A bond on which interest is not payable until maturity (or earlier redemption), but compounds periodically to accumulate to a stated maturity amount. Zero-interest bonds are typically issued at a discount and repaid at par upon maturity.

Glossaries excerpted from Understanding Public Investment Reporting - A Handbook For Local Elected Officials, California Debt and Investment Advisory Commission, 2003.

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shall have a minimum market value including accrued interest of 102% of the dollar value of the funds borrowed. Collateral shall be held in the City's custodian bank and the market value of the collateral securities shall be marked-to-the-market daily.

Repurchase Agreements shall be entered into only with broker/dealers and who are recognized as Primary Dealers with the Federal Reserve Bank of New York or have a Primary Dealer within their holding company structure. Repurchase Agreement counterparties shall have a short-term credit rating of at least A-1 or the equivalent and a long-term credit rating of at least A or the equivalent. Repurchase agreement counterparties shall execute a City approved Master Repurchase Agreement. The Treasurer shall maintain a copy of the City's approved Master Repurchase Agreement along with a list of broker/dealers who have executed same.

4. Prime Commercial Paper with a maturity not exceeding 270 days from the date of trade settlement with the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either sub-paragraph A. or sub-paragraph B. below:

   A. The entity shall (1) be organized and operating in the United States as a general corporation, (2) have total assets in excess of $500 million and (3) have debt other than commercial paper, if any, that is rated at least A or the equivalent by a NRSRO.

   B. The entity shall (1) be organized within the United States as a special purpose corporation, trust, or limited liability company, (2) have program-wide credit enhancements, including, but not limited to, over-collateralization, letters of credit or surety bond and (3) have commercial paper that is rated at least A-1 or the equivalent by a NRSRO.

   No more than 10% of the City's total portfolio shall be invested in the commercial paper of any one issuer, and the aggregate investment in commercial paper shall not exceed 25% of the City's total portfolio.

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5. Eligible Banker's Acceptances with a maturity not exceeding 180 days from the date of trade settlement, issued by a FDIC insured commercial bank with combined capital and surplus of at least $250 million, whose senior long-term debt is rated at least A or the equivalent by a NRSRO at the time of purchase. No more than 2% of the City's total portfolio shall be invested in banker's acceptances of any one issuer, except that a banker's acceptance issued by a bank authorized to handle the City's daily primary banking needs may, when aggregated with the funds in demand deposits in all such authorized banks, be in an amount up to 10% of the City's total portfolio. The aggregate investment in banker's acceptances shall not exceed 15% of the City's total portfolio.

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6. Medium-Term Notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States, with a final maturity not exceeding five years from the date of trade settlement, and rated at least AA- or the equivalent by a NRSRO. The aggregate investment in medium-term notes shall not exceed 10% of the City's total

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portfolio. In addition, AAA rated FDIC-guaranteed corporate bonds are herein authorized, with the aforementioned diversification and maturity requirements.

7. Non-negotiable Certificates of Deposit with maturities not exceeding five years, in FDIC insured state or nationally chartered banks or savings banks with a California branch office and that qualify as a depository of public funds in the State of California as defined in California Government Code Section 53630.5. Certificates of Deposit in amounts exceeding FDIC insurance coverage shall be secured in accordance with California Government Code Section 53652. The aggregate amount invested in Non-Negotiable Certificates of Deposit shall not exceed 25% of the City's total portfolio.

8. State of California's Local Agency Investment Fund (LAIF), in accordance with California Government Code Section 16429.1.

9. Money Market Funds registered under the Investment Company Act of 1940 that are "no-load" (meaning no commission or fee shall be charged on purchases or sales of shares); have a constant net asset value per share of $1.00; invest only in the securities and obligations authorized in the applicable California statutes and have a rating of at least AAA or the equivalent by at least two NRSROs. No more than 10% of the City's total portfolio shall be invested in money market funds of any one issuer, and the aggregate investment in money market funds shall not exceed 20% of the City's total portfolio.

The foregoing list of authorized securities and transactions shall be strictly interpreted. Any deviation from this list must be preapproved by resolution of the City Council.

PORTFOLIO MATURITIES AND LIQUIDITY

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities. The City will not invest in securities maturing more than five years from the date of trade settlement, unless the City Council has by resolution granted authority to make such an investment at least three months prior to the date of investment.

Notwithstanding the above, reserve funds relating to bond issues may be invested in securities for more than five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

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DIVERSIFICATION

The City will diversify investment instruments to avoid incurring unreasonable risks in over investing in specific instruments, individual financial institutions or maturities. The following portfolio maximums shall apply:

Authorized Investment	Portfolio Maximum	Maximum Maturity
U.S. Treasury Securities	No limit	5 Years
Federal Instrumentality Securities	No limit	5 Years
Repurchase Agreements	No limit	30 Days
Prime Commercial Paper	25%, 10% any one issuer	270 Days
Banker's Acceptances	2%*	180 Days
Medium-Term Notes	10%	5 Years
Certificates of Deposit	25%	5 Years
LAIF	No limit	N/A
Money Market Funds	20%, 10% any one issuer	N/A

* Banker's acceptances issued by a bank authorized to handle the City's daily primary banking needs may, when aggregated with the funds in demand deposits in all such authorized banks, be in an aggregate amount up to 10% of the City's total portfolio.

SELECTION OF BROKER/DEALERS

The Treasurer shall maintain a list of broker/dealers approved for investment purposes, and it shall be the policy of the City to conduct transactions only with those brokers and the firms they represent. Each approved broker/dealer must possess an authorizing certificate from the California Commissioner of Corporations as required by Section 25210 of the California Corporations Code. The firms they represent must:

1. be recognized as Primary Dealers by the Federal Reserve Bank of New York or have a Primary Dealer within their holding company structure, or
2. report voluntarily to the Federal Reserve Bank of New York, or
3. qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

Each authorized broker/dealer shall be required to submit and annually update a City approved Broker/Dealer Information Request form which includes the firm's most recent audited financial statements. The Treasurer shall maintain a list of the broker/dealers that have been approved by the City, along with each firm's most recent broker/dealer Information Request form.

The City may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in Item 4 of the Authorized Securities and Transactions section of this Investment Policy.

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COMPETITIVE TRANSACTIONS

Each investment transaction shall be competitively transacted with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction and their bid and offering prices shall be recorded.

If the City is offered a security for which there is no other readily available competitive offering, then the Treasurer will document quotations for comparable or alternative securities.

SELECTION OF BANKS

The Treasurer shall maintain a list of banks approved to provide depository and other banking services for the City. To be eligible for authorization, a bank shall qualify as a depository of public funds in the State of California as defined in California Government Code Section 53630.5, shall be a member of the FDIC and shall secure all deposits exceeding FDIC insurance coverage in accordance with California Government Code Section 53652.

SAFEKEEPING AND CUSTODY

The Treasurer shall select a bank to provide safekeeping and custodial services for the City, in accordance with the provisions of Section 53608 of the California Government Code. A City approved Safekeeping Agreement shall be executed with the custodian bank prior to utilizing that bank's safekeeping services. The custodian bank will be selected on the basis of its ability to provide satisfactory safekeeping services and the competitive pricing of them.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. All securities shall be perfected in the name of the City. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities, except non-negotiable Certificates of Deposit, Money Market Funds and LAIF, will be delivered by either book entry or physical delivery and will be held by the City's custodian bank, its correspondent bank or its Depository Trust Company (DTC) participant account.

All Fed wireable book entry securities shall be held in the Federal Reserve system in a customer account for the custodian bank which will name the City as "customer."

All DTC eligible securities shall be held in the custodian bank's DTC participant account and the custodian bank shall provide evidence that the securities are held for the City as "customer."

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All non-book entry (physical delivery) securities shall be held by the custodian bank or its correspondent bank and the custodian bank shall provide evidence that the securities are held by the bank for the City as "customer."

INTERNAL CONTROL

The Treasurer shall provide for interim and annual review of the City's investment activities by an external independent auditor. This review will provide internal control by assuring compliance with the City's investment policies and procedures.

PORTFOLIO PERFORMANCE

The investment portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. The performance of the City's investments shall be compared to the average yield on the U.S. Treasury security that most closely corresponds to the portfolio's actual weighted average effective maturity. When comparing the performance of the City's portfolio, its rate of return will be computed net of all fees and expenses.

REPORTING

Monthly, the Treasurer shall submit to the City Council a report of the City's investment portfolio. The report shall be prepared and submitted in accordance with California Government Code Section 53646 and shall include the deposit and investment risk disclosures required by Statement No. 40 of the Governmental Accounting Standards Board.

POLICY REVIEW

The Treasurer shall review this Investment Policy annually. Any modifications thereto shall be approved by resolution of the City Council.

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GLOSSARY OF SELECTED TERMS

Benchmark
A passive index used to compare the performance, relative to risk and return, of an investor's portfolio.

Cash Flow
A comparison of cash receipts (revenues) to required payments (debt service, operating expenses, etc.).

Credit Risk
The chance that an issuer will be unable to make scheduled payments of interest and principal on an outstanding obligation. Another concern for investors is that the market's perception of a corporation's credit will cause the market value of a security to fall, even if default is not expected.

Credit Rating
Various alphabetical and numerical designations used by institutional investors, Wall Street underwriters, and commercial rating companies to give relative indications of bond and note creditworthiness. Standard & Poor's and Fitch Ratings use the same system, starting with their highest rating, of AAA, AA, A, BBB, BB, B, CCC, CC, C, and D for default. Moody's Investors Service uses Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C, and D. Each of the services use pluses (+), minuses (-), or numerical modifiers to indicate steps within each category. The top four letter categories are considered investment grade ratings.

Duration
A measure of the timing of cash flows to be received from a security that provides the foundation for a measure of the interest rate sensitivity of a bond. Duration is an elasticity measure and represents the percentage change in price divided by the percentage change in interest rates. A high duration measure indicates that for a given level of movement in interest rates, prices of securities will vary considerably.

Fiduciary
An individual who holds something in trust for another and bears liability for its safekeeping.

Investment Oversight Committee
A committee of three to eleven members formed under *Government Code Section 27131* to monitor and review a county's investment policy by causing an annual audit and discussing its finding at an open meeting. Although cities and other local agencies are not required to compose an investment oversight committee, the State Legislature has declared that all local agencies "should participate in reviewing the policies that guide the investment of those funds."

Liquidity
The ease with which an investment may be converted to cash, either by selling it in the secondary market or by demanding its repurchase pursuant to a put or other prearranged agreement with the issuer or another party.

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Liquidity Risk
The chance that a security, sold prior to maturity, will be sold at a loss of value. For a local agency, the liquidity risk of an individual investment may not be as critical as how the overall liquidity of the portfolio allows the agency to meet its cash needs.

Market Risk
The chance that the value of a security will decline as interest rates rise. In general, as interest rates fall, prices of fixed income securities rise. Similarly, as interest rates rise, prices fall. Market risk also is referred to as systematic risk or risk that affects all securities within an asset class similarly.

Maturity
The stated date on which all or a stated portion of the principal amount of a security becomes due and payable.

Net Present Value
An amount that equates future cash flows with their value in present terms.

Par Amount or Par Value
The principal amount of a note or bond which must be paid at maturity. Par, also referred to as the "face amount" of a security, is the principal value stated on the face of the security. A par bond is one sold at a price of 100 percent of its principal amount.

Pooled Investment
A market institution authorized under various sections of state law that represents the combined deposits of more than one local agency and pays returns based upon each local agency's share of investment in the pool.

Portfolio
The combined holdings of all investment assets held by an investor.

Principal Amount
The face amount or par amount of a bond or issue of bonds payable on stated dates of maturity.

Put
The ability of a holder of an investment security to sell at a specified time and for a specified price the security back to the issuer or prior holder.

Return
The principal plus interest on an investment or portfolio of investments. In certain unfavorable market environments or due to risk factors, income derived from principal and interest may be less than the original amount invested.

Risk
The uncertainty of maintaining the principal or interest associated with an investment due to a variety of factors.

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Yield
For the purposes of this publication, return and yield are synonymous.

GLOSSARY OF INVESTMENT INSTRUMENTS

Asset-Backed Securities
Securities that are supported by pools of assets, such as installment loans or leases, or by pools of revolving lines of credits. Asset-backed securities are structured as trusts in order to perfect a security interest in the underlying assets.

Bank Note
A senior, unsecured, direct obligation of a bank or U. S. branch of a foreign bank.

Banker's Acceptance
Normally, a short-term bill of exchange that is accepted as payment by banks engaged in financing trade of physical assets or merchandise.

Bond
A debt obligation of a firm or public entity. A bond represents the agreement to repay the debt in principal and, typically, in interest on the principal.

Callable Security
An investment security that contains an option allowing the issuer to retire the security prior to its final maturity date.

Certificate of Deposit
A short-term, secured deposit in a financial institution that usually returns principal and interest to the lender at the end of the loan period. Certificates of Deposit (CDs) differ in terms of collateralization and marketability. Those appropriate to public agency investing include:

Negotiable Certificates of Deposit – Generally, short term debt instruments that usually pay interest and are issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. The majority of negotiable CDs mature within six months while the average maturity is two weeks. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor).

Non-Negotiable Certificates of Deposit – CDs that carry a penalty if redeemed prior to maturity. A secondary market does exist for these non-negotiable CDs, but include a transaction cost that reduces returns to the investor. Non-negotiable CDs issued by banks and savings and loans are insured by the Federal Deposit Insurance Corporation up to the amount of $100,000, including principal and interest. Amounts deposited above this amount may be secured with other forms of collateral through an agreement between the investor and the issuer. Collateral may include other securities including Treasuries or agency securities such as those issued by the Federal National Mortgage Association.

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Commercial Paper
A short-term, unsecured promissory note issued by a large corporation.

Corporate Notes and Bonds
Debt instruments, typically unsecured, issued by corporations, with original maturities in most cases greater than one year and less than ten years.

Federal Agency and Instrumentality Obligations
Obligations issued by a government-sponsored entity or a federally regulated institution.

Mortgage Pass-Through Obligations
Securities that are created when residential mortgages (or other mortgages) are pooled together and undivided interests or participations in the stream of revenues associated with the mortgages are sold.

Municipal Notes, Bonds, and Other Obligations
Obligations issued by state and local governments to finance capital and operating expenses.

Notes
Debt obligations of a firm or public entity, usually maturing in less than ten years.

Repurchase Agreements
From the perspective of a local agency, the short term, often overnight, purchase of securities with an agreement to resell the securities at an agreed upon price.

Reverse Repurchase Agreements
Differs from a repurchase agreement in the sense that a reverse repurchase agreement is an agreement to sell securities in return for cash with an agreement to repurchase the securities at an agreed upon price.

State and Local Investment Pools
The combined deposits of state and local agencies organized and operated by a state treasurer or a local official. These pools operate much like a mutual fund, with local agencies investing money together in order to increase efficiency and reduce costs.

State Noted, Bonds, and Warrants
Obligations of the State of California or another state government with different maturity lengths.

Zero-Interest Bond
A bond on which interest is not payable until maturity (or earlier redemption), but compounds periodically to accumulate to a stated maturity amount. Zero-interest bonds are typically issued at a discount and repaid at par upon maturity.

Glossaries excerpted from Understanding Public Investment Reporting - A Handbook For Local Elected Officials, California Debt and Investment Advisory Commission, 2003.