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CITY OF OAKLAND

AGENDA REPORT

TO: JOHN A. FLORES
INTERIM CITY ADMINISTRATOR

FROM: Katano Kasaine

SUBJECT: City of Oakland Investment Policy For Fiscal Year 2015-2016

DATE: May 6, 2015

City Administrator Approval	A	Date	5/27/15

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

Staff recommends that the City Council adopt:

1) **A Resolution For The City Of Oakland Investment Policy For Fiscal Year 2015-2016**
2) **A Resolution Pursuant To Government Code Section 53607 Delegating Investment Authority Of The Oakland Redevelopment Successor Agency To The Agency Treasurer For Fiscal Year 2015-2016**

OUTCOME

The adopted resolution for City of Oakland Investment Policy for Fiscal Year 2015-16 will act as a guideline for investing the City portfolio, and the adopted resolution of the Oakland Redevelopment Successor Agency will enable the Treasurer to prudently invest the successor portfolio.

EXECUTIVE SUMMARY

As a continuing best practice and sound financial management policies, the Treasury Bureau continues to submit its annual investment policy to the City's legislative body (the "City Council"). The California Debt and Investment Advisory Commission ("CDIAC") annually revises its Local Agency Investment Guidelines to include statutory changes that affect local government investments.

Assembly Bill No. 1933 (AB 1933) ***Attachment B*** was approved and signed by the Governor on June 25, 2014. Under Chapter 59, Statutes of 2014 (AB 1933) amended and added to Government Code Section 53601 authorization to the legislative body of a local agency to invest in United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank (supranationals).

The maximum remaining maturity for these obligations must be five years or less, and they must be eligible for purchase and sale within the United States. In addition, these investments must be rated "AA" or better by a Nationally Recognized Statistical Rating Organization ("NRSRO") and not exceed 30 percent of the City's portfolio.

The proposed City of Oakland Investment Policy for FY15-16 (***Attachment A***) incorporates this statutory change, and captures minor edits such as to include a rating scale and changes in dates to reflect the current fiscal year.

BACKGROUND/LEGISLATIVE HISTORY

The City Treasurer ("Treasurer") is responsible for sound financial management practices when managing the City Portfolios.

The proposed policy describes the primary goals of the Treasurer when investing funds as follows:

- Preservation of capital - to safeguard the funds under the Treasurer's control;
- Liquidity - to meet short term cash needs;
- Diversity - to reduce the portfolio risks; and
- Yield - to maximize the portfolio overall return.

The proposed policy adequately balances the needs of safety, liquidity, diversity, and yield.

ANALYSIS

Assembly Bill No. 1933 (AB 1933) was approved and signed by the Governor on June 25, 2014. Under Chapter 59, Statutes of 2014 (AB 1933) amended and added to Government Code Section 53601 authorization to the legislative body of a local agency to invest in United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank (supranational).

Supranationals are international institutions that provide development financing, advisory services, and/or financial services to their member countries to achieve the overall goal of improving living standards through sustainable economic growth.

The maximum remaining maturity for these obligations must be five years or less, and they must be eligible for purchase and sale within the United States. In addition, these investments must be rated "AA" or better by a Nationally Recognized Statistical Rating Organization ("NRSRO") and not exceed 30 percent of the City's portfolio.

Although the State no longer requires municipalities to submit an Investment Policy to a legislative body, the City's Treasury Bureau believes that as part of best practice and sound financial management, the City should continue to submit its annual investment policy as well as the quarterly cash management report to the City Council for review and approval.

Pursuant to Section 53607 of the California Government Code, staff is proposing that the investment of Oakland Redevelopment Successor Agency ("ORSA") portfolio is delegated to the City Treasurer due to declining portfolio balance. The ORSA portfolio will be managed to Prudent Standard and the portfolio will still be reported quarterly to City Council.

Aside from the one legislative change to the proposed to the City of Oakland Investment Policy for Fiscal Year 2015-2016, staff is proposing minor changes to be made to the format and dates to reflect the current fiscal year.

PUBLIC OUTREACH/INTEREST

This item did not require any additional public outreach other than the required posting on the City's website.

COORDINATION

This report and resolution has been prepared by the Treasury Bureau in coordination with City Attorney's Office and Controller's Bureau.

COST SUMMARY/IMPLICATIONS

There is no fiscal impact associated with this report.

SUSTAINABLE OPPORTUNITIES

Economic: This report insures sound financial management policies and practices.

Environmental: The City's policy is to invest, when possible, in companies that promote the use and production of renewable and "green" energy resources.

Social Equity: The City's policy is to invest in socially responsible companies when possible.

For questions regarding this report, please contact Katano Kasaine, Treasurer, at (510) 238-2989.

Respectfully submitted,

Katano Kasaine

KATANO KASAINE, Treasurer
Treasury Bureau

Reviewed by:
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Treasury Bureau

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Treasury Bureau

Attachments
(A) - ***City of Oakland and Oakland Redevelopment Successor Agency Investment Policy for Fiscal Year 2015-2016***
(B) -***Assembly Bill No. 1933 Chapter 59***

Attachment A

City of Oakland Investment Policy For Fiscal Year 2015-2016

Prepared by
Treasury Bureau
Adopted by the City Council
On June 16, 2015

Table of Contents

1.0 <u>POLICY</u>

The purpose of this Investment Policy ("Policy") is to establish overall guidelines for the management and investment of the City of Oakland (the "City") public funds pursuant to Council Resolution Nos. 75855 C.M.S and 00-38 C.M.S and in accordance with Government Codes Section 53607. This Investment Policy is now amended and adopted as of June 16, 2015 and will serve as the City of Oakland's Investment Policy for Fiscal Year 2015-16 and until it's further revised. As of October 18, 2012, the Investment Policy has been certified by California Municipal Treasures Association. In 2013, the Investment Policy was also certified by Association of Public Treasurers of the United States and Canada.

2.0 <u>SCOPE</u>

The Investment Policy applies to the operating funds of the City of Oakland, and the Port of Oakland (the "City Operating Pool"), which includes the General Fund, Special Revenue Funds, Debt Service Funds and all other funds comprised in City Operating Pool. .

2.1 Proceeds of notes, bonds issues or similar financings including, but not limited to, reserve funds, project funds, debt service funds and capital trust funds derived from such financing, are not governed by this Investment Policy, but rather shall be invested pursuant to their respective bond indentures or the State of California Government Code 53600, as applicable.

2.2 Retirement/Pension Funds and Deferred Compensation Funds are also not governed by this Investment Policy, but rather by the policies and Federal or State statutes explicitly applicable to such funds.

3.0 <u>PRUDENCE</u>

All investments and evaluation of such investments shall be made with the Prudent Investor Standard as set forth by California Government Code, Section 53600.3 and 27000.3, is defined as;

<u>Prudent Investor Standard</u>: Acting with care, skill, prudence and diligence under the circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the professional management of their business affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

4.0 <u>OBJECTIVES</u>

The primary objectives, in order of priority, of the City Portfolio is:

4.1 <u>Preservation of Capital (Safety)</u>
The first and primary goal of the Portfolio is the preservation of capital. Investment shall be undertaken in a manner to avoid losses due to market value risk, issuer default and broker default. To attain this objective; investments are diversified.

4.2 <u>Liquidity</u>
The Portfolio will be structured in a manner that will provide cash as needed to meet anticipated disbursements. Cash flow modeling ensures that investments mature as needed for disbursements.

4.3 Diversity

The objective is to avoid over-concentration in issuers, instruments, and maturity sectors. No more than 5 percent of the total assets of the investments held by the City may be invested in the securities of any one issuer, except the obligations of the United States government or government-sponsored enterprises.

4.4 Yield

The Portfolio is also managed to maximize its overall market return with consideration of the safety, liquidity, and diversity parameters discussed above.

5.0 DELEGATION OF AUTHORITY

Management responsibility for the investment program is specifically delegated by the City Administrator or designee to the Treasurer or designee who shall establish procedures for the investment programs, which are consistent with the Investment Policy. Authorization for investment decisions is limited to the Treasurer or designee. A Principal Financial Analyst may execute investment transactions in the absence of the Treasurer or designee per the Treasurer's instructions or prior authorization.

A Principal Financial Analyst, Financial Analyst, or Treasury Analyst III may make decisions only with respect to overnight investments, but may implement investment decisions received directly from the Treasurer or designee.

6.0 INTERNAL CONTROL

The Treasurer or designee shall maintain a system of internal controls designed to ensure compliance with the Investment Policy and to prevent losses due to fraud, employee error, misrepresentations by third parties or unanticipated changes in financial markets.

7.0 ETHICS AND CONFLICTS OF INTEREST

All officers and employees involved in the investment process shall not engage in any personal business activity, which could conflict with proper execution of investments subject to this Policy. Any material financial interests in financial institutions which do business with the City should be disclosed to the City Administrator. All individuals involved in the investment process are required to report all gifts and income in accordance with California State Law.

8.0 SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis pursuant to approved custodial safekeeping agreements. All securities owned by the City shall be held in safekeeping by the City's custodial bank, which acts as agent for the City under the terms of custody agreement.

9.0 APPLICABLE ORDINANCES

9.1 Nuclear Free Zone Ordinance

Under the guidelines of a voter-approved Measure, the Oakland City Council approved Ordinance No. 11062 C.M.S, which restricts the City's investments in U.S Government Treasuries. The Treasurer shall make every attempt to invest in any available short-term option that provides approximately the same level of security and return as Treasuries. In the event that no reasonable alternatives exist, or to the extent that the City may experience financial hardship as a result of investment in these alternatives, the City Council may adopt a waiver for a period not to exceed 60 days, as authorized by the Ordinance, allowing the City to invest in U.S securities.

9.2 Linked Banking Ordinance

Pursuant to Ordinance No. 12066 C.M.S. the City has established a Linked Banking Service Program. This reference applies to depositories for both the City of Oakland and the Port of Oakland banking needs. Depositories are defined within the Ordinance as "all banking services utilized by the City including the Port of Oakland operating fund, with the exception of investments made through investment banks and broker/dealers." Depositories providing services to the City and the Port of Oakland must provide to the City, annually, the information enumerated under Section 3 of the Ordinance.

9.3 Tobacco Divestiture Resolution

On February 17, 1998, Council adopted Resolution No. 74074 C.M.S., which prohibits investment in businesses deriving greater than fifteen percent of their revenues from tobacco products. Treasury Bureau maintains a list of firms excluded from permitted investments due to the tobacco divestiture requirements.

9.4 Fossil Fuel Divestiture Resolution

On June 17, 2014, Council adopted Resolution No. 85053 C.M.S. which prohibits the Investment or ownership stake in any companies that extract, produce, refine, burn or distribute fossil fuels. Treasury Bureau is in full compliance with this resolution

9.5 Firearm or Gun Manufacturer Divestiture Resolution

On March 5, 2013, Council adopted Resolution No. 84242 C.M.S which prohibits investment or ownership stake in any manufacturer of firearms or ammunition. Treasury Bureau does not have any direct investment exposure to firearms or ammunition manufacturer.

10.0 SOCIAL RESPONSIBILITY

When possible, it is the City's policy to invest in companies that promote the use and production of renewable energy resources and any other socially responsible investments, subject to the prudent investment standard.

11.0 REPORTING

11.1 City Council

As best practice and sound financial management practice, the City Administrator or designee will submit a quarterly investment report and an annual investment policy for the City within 30 days following the period being reported to the City Council.

The quarterly report will be deemed timely pursuant to this Investment Policy and Government Code Section 53646, so long as it has been submitted to the Assistant City Administrator within 30 days following the period being reported to be scheduled for the Finance and Management Committee. The quarterly cash management report for the period ending June 30 will be filed in a timely manner, but it will not be approved until September due to the City Council summer recess.

The report will include the information required under Government Code Section 53646 including: the type of investment, issuer, date of maturity, par and dollar amount invested (this data may be in the form of a subsidiary ledger of investments); a description of any investments under management of contracted parties, if any; current market values and source of valuation; statement of compliance or manner of non-compliance with the Investment Policy; and a statement denoting the ability to meet the Fund's expenditure requirements for the next six months. In addition, the report shall summarize economic conditions, liquidity, diversity, risk characteristics and other features of the portfolio. The report will disclose the total investment return for the 3-month period. In meeting these requirements, the report shall include an appendix that discloses all transactions during each month and the holdings at the end of each month during the period being reported.

11.2 <u>Annual Audit</u>
Investment Portfolio is priced to market per Government Accounting Standards Board (GASB) and reported in compliance with General Accepted Accounting Principals. Annual disclosure requirements such as Custodial Credit Risk, Credit Risk, Concentration of Credit Risk, Interest Rate Risk and Foreign Currency Risk are reported in the City's Annual Comprehensive Financial Report (CAFR).

11.3 <u>Internal Audits</u>
Internal audits of treasury operations maybe conducted periodically to review its procedures and policies and make any recommendations for changes and improvements if needed.

12.0 <u>TRADING POLICES</u>

12.1 <u>Sales Prior to Maturity</u>

"Buy and hold" is not necessarily the strategy to be used in managing the Funds. It is expected that gains will be realized when prudent. Losses are acceptable if the proposed swap/trade clearly enhances the portfolio yield over the life of the new security on a total return basis.

Sufficient written documentation will be maintained to facilitate an audit of the transaction. Losses, if any, will be recognized and recorded based on the transaction date.

13.0 <u>BROKER/DEALERS AND FINANCIAL INSTITUTIONS</u>

The purchase of any authorized investment shall be made either directly from the issuer or from any of the following:

- Institutions licensed by the State of California as a broker/dealer
- Members of a federally regulated securities exchange
- National or state-chartered banks

- Federal or state savings institutions or associations as defined in Finance Code Section 5102
- Brokerage firms reporting as a primary government dealer to the Federal Reserve Bank

The Treasurer or designee will maintain a current and eligible list of reputable primary and regional dealers, brokers and financial institutions with whom securities trading and placement of funds are authorized. A strong capital base credit worthiness, and, where applicable, a broker/dealer staff experienced in transactions with California local governments are the primary criteria for inclusion on the City of Oakland's approved list.

Approved dealers and brokers shall be limited to primary dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) and which provide: proof of Financial Industry Regulatory Authority (FINRA) certification; proof of California State registration; and a completed City of Oakland broker/dealer questionnaire. In addition, prior to approval and for every two years thereafter, approved dealers and brokers must provide: an audited financial statement; certification of receipt, review of and willingness to comply with the current Investment Policy; and certification of compliance with Rule G-37 of the Municipal Securities Rulemaking Board regarding limitations on political contributions to the Mayor or any member of the City Council or to any candidate for these offices.

The Treasurer may remove a firm from the approved list at any time due to: any failure to comply with any of the above criteria; any failure to successfully execute a transaction; any change in broker/dealer staff; or any other action, event or failure to act which, in the sole discretion of the Treasurer is materially adverse to the best interests of the City.

14.0 GENERAL CREDIT QUALITY

Short- term debt shall be rated at least "A-1" by Standard & Poor's Corporation, "P-1" by Moody's Investor Service, Inc., "F-1" by Fitch. Long-term debt shall be rated at least "A" by Standard & Poor's Corporation, Moody's Investors Service, Inc., or Fitch.

The minimum credit requirement for each security is further defined within the Permitted Investments section of the policy. If securities which are purchased for the Fund are downgraded below the credit quality required by the Fund. The Treasurer, will determine whether to retain or to sell the security. Evaluation of divestiture of securities will be determined on a case-by-case basis.

15.0 PERMITTED INVESTMENTS

The following securities are permissible investments pursuant to Section 53601 of the Government Code as well as this Investment Policy. Any other investment not specified hereunder shall be made only upon prior approval by the City Council.

14.1 U. S. Treasury Securities

Bills, notes and bonds issued by the U.S. Treasury which are direct obligations of the federal government.

- Maximum Maturity: 5 years
- Maximum Portfolio Exposure: 20%*
- Maximum Issuer Exposure: Prudent person standard applies overall
- Credit Requirement: N.A.

*20% limit is a result of the Nuclear Free Zone Ordinance, subject also to prior adoption by Council of a waiver for a period not to exceed 60 days allowing investment in U.S. Treasury securities due to specified findings. There is no limitation under the Government Code

14.2 Federal Agencies and Instrumentalities

Notes and bonds of federal agencies, government-sponsored enterprises and international institutions. Not all are direct obligations of the U. S. Treasury but may involve federal sponsorship and/or guarantees, in some instances.

- Maximum Maturity: 5 years
- Maximum Portfolio Exposure: None
- Maximum Issuer Exposure: Prudent person standard applies overall
- Credit Requirement: N.A.

14.3 Banker's Acceptances (BA)

Bills of exchange or time drafts drawn on and accepted by a commercial bank, typically created from a letter of credit issued in a foreign trade transaction.

- Maximum Maturity: 180 days
- Maximum Portfolio Exposure: 40%
- Maximum Issuer Exposure: 30% of total surplus funds may be in BAs of one commercial bank; maximum 5% per issuer
- Credit Requirement: Al, P1, or F1 or better by two or the three nationally recognized rating services. No rating may be lower that any of the rating listed above.

14.4 Commercial Paper

A short-term, unsecured promissory note issued by financial and non-financial companies to raise short-term cash. Financial companies issue commercial paper to support their consumer and/or business lending; non-financial companies issue for operating funds.

- Maximum Maturity : 270 days
- Maximum Portfolio Exposure: 25%
- Maximum Issuer Exposure: No more than 10% of the total assets of the investments held by the City may be invested in any one issuer's commercial paper; and maximum 5% per issuer
- Credit Requirement: Al, P1, or F1 or better by two or the three nationally recognized rating services. No rating may be lower that any of the rating listed above.
- Eligibility Limited to general corporations organized and operating in the United States with assets in excess of $500 million, and having "A" or higher ratings for the issuer's debt, other than commercial paper,. if any, as provided by NRSRO.

14.5 Asset-Backed Commercial Paper

Asset-Backed Commercial Paper ("ABCP") issued by special purpose corporations ("SPCs") that is supported by credit enhancement facilities (e.g. over-collateralization, letters of credit, surety bonds, etc.)

- Maximum Maturity: 270 days
- Maximum Portfolio Exposure: 25% (Not to exceed 25% of total secured and unsecured CP)
- Maximum Issuer Exposure : No more than 10% of the total assets of the investments held by the City or Agency may be invested in any one issuer's commercial paper; and maximum 5% per issuer
- Credit Requirement: Al, P1, or F1 or better by two or the three nationally recognized rating services. No rating may be lower that any of the rating listed above.
- Eligibility: Issued by special purpose corporations ("SPC") organized and operating in the United States with assets exceeding $500 million. Restricted to programs sponsored by commercial banks or finance companies organized and operated in the United States.
- Program must have credit facility that provides at least 100% liquidity
- Serialized ABCP programs are not eligible
- Ratings are to be routinely monitored. The Treasurer is to perform his/her own due diligence as to creditworthiness.

14.6 Local Government Investment Pools

For local agencies (including counties, cities or other local agencies) that pool money in deposits or investments with other local agencies, investments may be made subject to the following:

- Maximum Maturity : N/A
- Maximum Portfolio Exposure: 20%
- NAV Requirement: $1.00
- Credit Requirement: Top ranking or highest letter and numerical rating provided by at least two nationally recognized statistical rating organizations
- Must retain an Investment Advisor
- Registered with the SEC with not less than 5 years experience in investing securities as authorized by the Code, and with assets under management in excess of $500 million
- Fund CompositionComprised of instruments in accordance with the California State Government Code

14.7 Medium Term Notes

Corporate Bonds, Corporate Notes and Deposit Notes. Issuers are banks and bank holding companies, thrifts, finance companies, insurance companies and industrial corporations. These are debt obligations that are generally unsecured.

- Maximum Maturity: 5 years (additional limitations based on credit, below)
- Maximum Portfolio Exposure: 30%
- Maximum Issuer Exposure: No more than 5% of the Portfolio shall be invested in any single institution.
- Credit Requirement: Must be Rated A3, A-, or A- or better by two of the three nationally recognized rating services, Moody's, S&P, or Fitch, respectively. No Rating may be lower than any of the Rating listed above.
- Eligibility: Limited to corporations organized and operating within the United States or depository institutions licensed by the United States or any state and operating within the United States

14.8 Negotiable Certificates of Deposit

Issued by commercial banks and thrifts, and foreign banks (Yankee CD's).

- Maximum Maturity: 5 years
- Maximum Portfolio Exposure: 30%
- Maximum Issuer Exposure :Prudent person standard applies overall; maximum 5% per issuer

- Credit Requirement : Top 3 rating categories, A, A2 or A (S&P/Moody's/Fitch) being the lowest, if rated by S&P, Moody's or Fitch.

14.9 Repurchase Agreements

A contractual transaction between the investor and a bank/dealer to exchange cash for temporary ownership or control of securities/collateral with an agreement by the bank/dealer to repurchase the securities on a future date. Primarily used as an overnight investment vehicle.

- Maximum Maturity: 360 days

- Maximum Portfolio : Exposure None

- Maximum Dealer Exposure: Prudent person standard applies overall; maximum 5% per issuer

- Collateral Requirements: Collateral limited to Treasury and Agency securities; must be 102% or greater

- Mark-to-market: Daily

- Eligibility: Limited to primary dealers of the Federal Reserve Bank of New York, for which a current Master Repurchase Agreement has been executed with the City.

14.10 Reverse Repurchase Agreements

The mirror image of a repurchase agreement. Used as a source of liquidity when there is a mismatch of cash flow requirement and scheduled maturities. A mechanism to avoid liquidating securities for immediate cash needs. Restricted to securities owned for a minimum of 30 days prior to settlement of the repurchase agreement.

This strategy should be used solely for liquidity and not for arbitrage or leverage purposes.

- Maximum Maturity: 92 days (unless a written agreement guaranteeing the earnings or spread for the entire period)

- Maximum Portfolio Exposure: 20% of the base value of the portfolio

- Eligibility: Limited to primary dealers of the Federal Reserve Bank of New York or nationally or State chartered bank with significant banking relationship with the City.

14.11 Secured Obligations and Agreements

Obligations, including notes or bonds, collateralized at all times in accordance with Sections 53651 and 53652 of the Government Code.

- Maximum Maturity: 2 years

- Maximum Portfolio Exposure 20%

- Maximum Issued/Provider Exposure: Prudent person standard applies overall; maximum 5% per issue
- Collateral Requirements: Collateral limited to Treasury and Agency securities; must be 102% or greater
- Mark-to-market: Daily
- Credit Requirement: Issuer/Provider rated in "AA" category by at least one national rating agency; or agreement guaranteed by an "AA" company
- Eligibility: Banks, insurance companies, insurance holding companies and other financial institutions

14.12 Certificates of Deposit

Time deposits, which are non-negotiable, are issued most commonly by commercial banks, savings and loans and credit unions with federal deposit insurance available for amounts up to $250,000. Deposits in banks, savings and loan associations and federal credit unions with a branch office within Oakland will be made (to the extent permissible by State and Federal law or rulings) pursuant to the following conditions:

- Maximum Maturity: 360 days
- Maximum Portfolio Exposure: Prudent person standard applies.
- Maximum Issuer Exposure: Prudent person standard applies.
- Credit Requirement: For deposits over $250,000: Top 3 rating categories - A, A2 or A (S&P/Moody's/Fitch) being the lowest, if rated by S&P, Moody's or Fitch.
- Deposit Limit: For federally insured deposits of $250,000 or less: No minimum credit rating required. City's deposits cannot exceed the total shareholder's equity of the institution. For deposits over $250,000, it must be collateralized.
- Depository Selection: Highest available rate of interest
- Institution Requirements: Most recent Annual Report

Pursuant to Government code 53637, the City is prohibited from investing in negotiable certificates of deposit of a state or federal credit union if a member of the legislative body or decision-making authority serves on the board of directors or committee.

14.13 Money Market Mutual Funds

Regulated by the SEC, these funds operate under strict maturity and diversification guidelines. These funds have no federal guarantee but are viewed as a very safe short-term cash investment.

- Maximum Maturity: N/A
- Maximum Portfolio Exposure: 20%

- NAV Requirement: $1.00

- Credit Requirement: Top ranking or highest letter and numerical rating provided by at least two nationally recognized statistical rating organizations

- Investment Advisor Alternative to Ratings: Registered with the SEC with not less than 5 years experience in investing securities as authorized by the Code, and with assets under management in excess of $500 million

- Fund Composition: Comprised of instruments in accordance with the California State Government Code

14.14 <u>State Investment Pool (Local Agency Investment Fund)</u>
A pooled investment fund overseen by the State Treasurer, which operates like a money market fund, but is for the exclusive benefit of governmental entities within the state. Maximum currently authorized by Local Agency Investment Fund (LAIF) is $50 million, which is subject to change. The LAIF is in trust in the custody of the State Treasurer. The City's right to withdraw its deposited monies from LAIF is not contingent upon the State's failure to adopt a State Budget. As of June 20, 2005, commercial paper of a limited liability corporation is a legal investment for LAIF, per Chapter 16, Statutes of 2005 (AB 279, Calderon).

- Maximum Maturity N/A

- Maximum Portfolio Exposure None

14.15 <u>Local City/Agency Bonds</u>
Bonds issued by the City of Oakland, or any department, board, agency or authority of the City.

- Maximum Maturity: 5 years

- Maximum Portfolio Exposure: None

- Maximum Issuer Exposure: Prudent person standard applies overall; maximum 5% per issuer

- Credit Requirement: Prudent person standard applies

14.16 <u>State of California Obligations and Others</u>
State of California and any other of the 49 United States registered state warrants, treasury notes, or bonds issued by a State.

- Maximum Maturity: 5 years

- Maximum Portfolio Exposure: None

- Maximum Issuer Exposure: Prudent person standard applies overall; maximum 5% per issuer

- Credit Requirement: Prudent person standard applies

14.17 <u>Other Local Agency Bonds</u>
<u>Bonds, notes, warrants or other evidences of indebtedness of any local agency with the state.</u>

- Maximum Maturity: 5 years

- Maximum Portfolio Exposure: None

- Maximum Issuer Exposure: Prudent person standard applies overall; maximum 5% per issuer

- Credit Requirement: Prudent person standard applies

14.18 <u>Deposits- Private Placement</u>
Prudent to Government Code Section 53601.8 and 53635.8, local agencies are authorized to invest their surplus funds in deposits at a commercial or saving bank, saving and loan, or credit union using a private sector deposit placement service.

- Maximum Portfolio Exposure: 30%

- Maximum Issuer Exposure: maximum 10% per private sector placement entity

- Credit Requirement: Prudent person standard applies

- Sunset on January 1, 2017

14.19 <u>Supranationals</u>

U.S dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by any of the supranational institutions such as International Bank of Reconstruction and Development (IBRD), the International Finance Corporation (IFC), and the Inter-American Development Bank (IADB). Eligible for purchase and sale within the United States.

- Maximum Maturity: 5 years

- Maximum Portfolio Exposure: 30%

- Credit Requirement: Rated "AA" or better by NRSRO

15.0 <u>MAXIMUM MATURITIES</u>

The City's Investment Policy shall be structured to provide that sufficient funds from investments are available to meet City's anticipated cash need. No investments will have a maturity of more that 5 years from its date of purchase.

16.0 <u>GLOSSARY</u>

Definitions of investment-related terms are listed in Exhibit A.

EXHIBIT A

GLOSSARY

ACCRETION: Adjustment of the difference between the prices of a bond bought at an original discount and the par value of the bond.

AGENCIES: Federal agency securities and/or Government-sponsored enterprises (GSEs), also known as U.S. Government instrumentalities. Securities issued by Government National Mortgage Association (GNMA) are considered true agency securities, backed by the full faith and credit of the U.S. Government. GSEs are financial intermediaries established by the federal government to fund loans to certain groups of borrowers, for example homeowners, farmers and students and are privately owned corporations with a public purpose. The most common GSEs are Federal Farm Credit System Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Association, and Federal National Mortgage Association.

AMORTIZATION: Accounting procedure that gradually reduces the cost value of a limited life or intangible asset through periodic charges to income. For fixed assets, the term used is "depreciation". It is common practice to amortize any premium over par value paid in the purchase of preferred stock or bond investments.

APPRECIATION: Increase in the value of an asset such as a stock bond, commodity or real estate.

ASKED PRICE: The price a broker/dealer offers to sell securities.

ASSET BACKED: A type of security that is secured by receivables, such as credit card and auto loans. These securities typically pay principal and interest monthly.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. This money market instrument is used to finance international trade.

BASIS POINT: One-hundredth of one percent (i.e., 0.01%).

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investment.

BID PRICE: The price a broker/dealer offers to purchase securities.

BOND: A financial obligation for which the issuers promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

BOOK VALUE: The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

BROKER: A broker acts as an intermediary between a buyer and seller for a commission and does not trade for his/her own risk and account or inventory.

CALLABLE SECURITIES: A security that can be redeemed by the issuer before the scheduled maturity date.

CASH FLOW: An analysis of all changes that affect the cash account during a specified period.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COLLATERALIZED MORTGAGE OBLIGATION (CMO): A type of mortgage-backed security that creates separate pools of pass-through rates for different classes of bondholders with varying maturities, called trances. The repayments from the pool of pass-through securities are used to retire the bonds in the order specified by the bonds' prospectus.

COMMERCIAL PAPER: Short-term, unsecured, negotiable promissory notes of corporations.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual financial report for the City. It includes combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP).

CORPORATE NOTE: Debt instrument issued by a private corporation.

COUPON: The annual rate at which a bond pays interest.

CREDIT RATINGS: A grade given to a debt instrument that indicates its credit quality. Private independent rating services such as Standard & Poor's, Moody's and Fitch provide these

CREDIT RISK: The risk that an obligation will not be paid and a loss will result due to a failure of the issuer of a security.

CUSIP: Stands for Committee on Uniform Securities Identification Procedures. A CUSIP number identifies most securities, including: stocks of all registered U.S. and Canadian companies, and U.S. government and municipal bonds. The CUSIP system—owned by the American Bankers Association and operated by Standard & Poor's—facilitates the clearing and settlement process of securities. The number consists of nine characters (including letters and numbers) that uniquely identify a company or issuer and the type of security.

CURRENT YIELD: The annual interest on an investment divided by the current market value. Since the calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

CUSTODIAN: A bank or other financial institution that keeps custody of stock certificates and other assets.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his/her own risk and account or inventory.

DEBENTURES: A bond secured only by the general credit of the issuers.

DELIVERY VERSUS PAYMENT (DVP): Delivery of securities with a simultaneous exchange of money for the securities.

DERIVATIVE: A financial instrument that is based on, or derived from, some underlying asset, reference date, or index.

DIRECT ISSUER: Issuer markets its own paper directly to the investor without use of an intermediary.

DISCOUNT: The difference between the cost of a security and its value at maturity when quoted at lower than face value.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns and risk profiles.

DURATION: A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. Duration measures the price sensitivity of a bond to changes in interest rates.

FACE VALUE: The principal amount owed on a debt instrument. It is the amount on which interest is computed and represents the amount that the issuer promises to pay at maturity.

FAIR VALUE: The amount at which a security could be exchanged between willing parties, other than in a forced or liquidation sale. If a market price is available, the fair value is equal to the market value.

FANNIE MAE: Trade name for the Federal National Mortgage Association (FNMA), a U.S. Government sponsored enterprise.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that provides insurance on bank deposits, guaranteeing deposits to a set limit per account, currently $250,000.

FEDERAL FARM CREDIT BANK (FFCB): Government-sponsored enterprise that consolidates the financing activities of the Federal Land Banks, the Federal Intermediate Credit Banks and the Banks for Cooperatives. Its securities do not carry direct U.S. government guarantees.

FEDERAL FUNDS RATE: The rate of interest at which Federal funds are traded. This rate is considered to be the most sensitive indicator of the direction of interest rates, as it is currently pegged by the Federal Reserve through open-market operations.

FEDERAL GOVERNMENT AGENCY SECURITIES: Federal Agency or United States government-sponsored enterprise 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.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored enterprise (currently made up of 12 regional banks) that regulates and lends funds and provides correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. Although the banks operate under federal charter with government supervision, the securities are not guaranteed by the U. S. Government.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC): Government sponsored enterprise that helps maintain the availability of mortgage credit for residential housing. FHLMC finances these operations by marketing guaranteed mortgage certificates and mortgage participation certificates. Its discount notes and bonds do not carry direct U.S. government guarantees.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): Government sponsored enterprise that is the largest single provider of residential mortgage funds in the United States. FNMA is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted.

FEDERAL OPEN MARKET COMMITTEE (FOMC): A committee of the Federal Reserve Board, which establishes monetary policy and executes it through temporary and permanent changes to the supply of bank reserves.

FEDERAL RESERVE SYSTEM: The central bank of the U.S. which consists of a seven member Board of Governors, 12 regional banks and about 5,700 commercial banks that are members.

FED WIRE: A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.

FREDDIE MAC: Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. government sponsored enterprise.

GINNIE MAE: Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the U.S. Government.

GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB): A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

GUARANTEED INVESTMENT CONTRACTS (GICS): An agreement acknowledging receipt of funds, for deposit, specifying terms for withdrawal, and guaranteeing a rate of interest to be paid.

INTEREST RATE: The annual yield earned on an investment, expressed as a percentage.

INTEREST RATE RISK: The risk of gain or loss in market values of securities due to changes in interest-rate levels. For example, rising interest rates will cause the market value of portfolio securities to decline.

INVESTMENT AGREEMENTS: A contract providing for the lending of issuer funds to a financial institution which agrees to repay the funds with interest under predetermined specifications.

INVESTMENT GRADE (LONG TERM RATINGS): The minimum, high quality ratings for long term debt such as corporate notes. Investment Grade ratings are as follows: A3 (Moody's), A- (S&P), and A- (Fitch).

INVESTMENT PORTFOLIO: A collection of securities held by a bank, individual, institution or government agency for investment purposes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash with minimum risk of principal.

LOCAL AGENCY INVESTMENT FUND (LAIF): An investment pool sponsored by the State of California and administered/managed by the State Treasurer. Local government units, with consent of the governing body of that agency, may voluntarily deposit surplus funds for the purpose of investment. Interest earned is distributed by the State Controller to the participating governmental agencies on a quarterly basis.

LOCAL AGENCY INVESTMENT POOL: A pooled investment vehicle sponsored by a local agency or a group of local agencies for use by other local agencies.

MARKET RISK: The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates. Systematic risk of a security that is common to all securities of the same general class (stocks, bonds, notes, money market instruments) and cannot be eliminated by diversification (which may be used to eliminate non-systematic risk).

MARKET VALUE: The price at which a security is currently being sold in the market. See FAIR VALUE.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase agreements and reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date that the principal or stated value of a debt instrument becomes due and payable.

MEDIUM-TERM NOTES (MTNs): Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts either on a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

MODIFIED DURATION: The percent change in price for a 100 basis point change in yields. This is a measure of a portfolio's or security's exposure to market risk.

MONEY MARKET: The market in which short term debt instruments (Treasury Bills, Discount Notes, Commercial Paper, Banker's Acceptances and Negotiable Certificates of Deposit) are issued and traded.

MORTGAGED BACKED SECURITIES: A type of security that is secured by a mortgage or collection of mortgages. These securities typically pay principal and interest monthly.

MUNICIPAL BONDS: Debt obligations issued by states and local governments and their agencies, including cities, counties, government retirement plans, school districts, state universities, sewer districts, municipally owned utilities and authorities running bridges, airports and other transportation facilities

MUTUAL FUND: An entity that pools money and can invest in a variety of securities which are specifically defined in the fund's prospectus.

NEGOTIABLE CERTIFICATE OF DEPOSIT: A large denomination certificate of deposit which can be sold in the open market prior to maturity.

NET PORTFOLIO YIELD: Calculation in which the 365-day basis equals the annualized percentage of the sum of all Net Earning during the period divided by the sum of all Average Daily Portfolio Balances.

NATIONALLY RECOGNIZED RATING ORGANIZATION (NRSRO): is a credit rating agency that issues credit rating that U.S Securities and Exchange Commission permits other financial firms to use for certain regulatory purposes.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit: Sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PAR VALUE: The amount of principal which must be paid at maturity. Also referred to as the face amount of a bond. See FACE VALUE.

PORTFOLIO: The collection of securities held by an individual or institution.

PREMIUM: The difference between the par value of a bond and the cost of the bond, when the cost is above par.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. These dealers are authorized to buy and sell government securities in direct dealing with the Federal Reserve Bank of New York in its execution of market operations to carry out U.S. monetary policy. Such dealers must be qualified in terms of reputation, capacity, and adequacy of staff and facilities.

PRIME (SHORT TERM RATING): High quality ratings for short term debt such as commercial paper. Prime ratings are as follows: P1 (Moody's), A1 (S&P), and F1 (Fitch).

PRINCIPAL: The face value or par value of a debt instrument, or the amount of capital invested in a given security.

PRIVATE PLACEMENTS: Securities that do not have to be registered with the Securities and Exchange Commission because they are offered to a limited number of sophisticated investors.

PROSPECTUS: A legal document that must be provided to any prospective purchaser of a new securities offering registered with the Securities and Exchange Commission that typically includes information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements (also known as an "official statement").

PRUDENT INVESTOR STANDARD: A standard of conduct for fiduciaries. Investments shall be made with judgment and care--under, circumstances then prevailing, which 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 as well as the probable income to be derived.

PUBLIC DEPOSITS: A bank that is qualified under California law to accept a deposit of public funds.

PURCHASE DATE: The date in which a security is purchased for settlement on that or a later date. Also known as the "trade date".

RATE OF RETURN: 1) The yield which can be attained on a security based on its purchase price or its current market price. 2) Income earned on an investment, expressed as a percentage of the cost of the investment.

RATING SCALE:

<table>
<tr><th colspan="2">Moody's</th><th colspan="2">S&P</th><th colspan="2">Fitch</th><th colspan="2" rowspan="2">Rating description</th></tr>
<tr><th>Long-term</th><th>Short-term</th><th>Long-term</th><th>Short-term</th><th>Long-term</th><th>Short-term</th></tr>
<tr><td>Aaa</td><td rowspan="6">P-1</td><td>AAA</td><td rowspan="4">A-1+</td><td>AAA</td><td rowspan="4">F1+</td><td>Prime</td><td rowspan="10">Investment-grade</td></tr>
<tr><td>Aa1</td><td>AA+</td><td>AA+</td><td rowspan="3">High grade</td></tr>
<tr><td>Aa2</td><td>AA</td><td>AA</td></tr>
<tr><td>Aa3</td><td>AA−</td><td>AA−</td></tr>
<tr><td>A1</td><td>A+</td><td rowspan="2">A-1</td><td>A+</td><td rowspan="2">F1</td><td rowspan="3">Upper medium grade</td></tr>
<tr><td>A2</td><td>A</td><td>A</td></tr>
<tr><td>A3</td><td rowspan="2">P-2</td><td>A−</td><td rowspan="2">A-2</td><td>A−</td><td rowspan="2">F2</td></tr>
<tr><td>Baa1</td><td>BBB+</td><td>BBB+</td><td rowspan="3">Lower medium grade</td></tr>
<tr><td>Baa2</td><td rowspan="2">P-3</td><td>BBB</td><td rowspan="2">A-3</td><td>BBB</td><td rowspan="2">F3</td></tr>
<tr><td>Baa3</td><td>BBB−</td><td>BBB−</td></tr>
<tr><td>Ba1</td><td rowspan="14">Not prime</td><td>BB+</td><td rowspan="6">B</td><td>BB+</td><td rowspan="6">B</td><td rowspan="3">Non-investment grade speculative</td><td rowspan="14">Non-investment grade
aka high-yield bonds
aka junk bonds</td></tr>
<tr><td>Ba2</td><td>BB</td><td>BB</td></tr>
<tr><td>Ba3</td><td>BB−</td><td>BB−</td></tr>
<tr><td>B1</td><td>B+</td><td>B+</td><td rowspan="3">Highly speculative</td></tr>
<tr><td>B2</td><td>B</td><td>B</td></tr>
<tr><td>B3</td><td>B−</td><td>B−</td></tr>
<tr><td>Caa1</td><td>CCC+</td><td rowspan="5">C</td><td rowspan="5">CCC</td><td rowspan="5">C</td><td>Substantial risks</td></tr>
<tr><td>Caa2</td><td>CCC</td><td>Extremely speculative</td></tr>
<tr><td>Caa3</td><td>CCC−</td><td rowspan="3">Default imminent with little prospect for recovery</td></tr>
<tr><td rowspan="2">Ca</td><td>CC</td></tr>
<tr><td>C</td></tr>
<tr><td>C</td><td rowspan="3">D</td><td rowspan="3">/</td><td>DDD</td><td rowspan="3">/</td><td rowspan="3">In default</td></tr>
<tr><td rowspan="2">/</td><td>DD</td></tr>
<tr><td>D</td></tr>
</table>

REALIZED GAIN (OR LOSS): Gain or loss resulting from the sale or disposal of a security.

REGIONAL DEALER: A financial intermediary that buys and sells securities for the benefit of its customers without maintaining substantial inventories of securities and that is not a primary dealer.

REPURCHASE AGREEMENT (RP or REPO): A transaction in which a counterparty or the holder of securities (e.g. investment dealer) sells these securities to an investor (e.g. the City) with a simultaneous agreement to repurchase them at a fixed date. The security "buyer" (e.g. the City) in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate the "buyer" for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO): The opposite of a repurchase agreement. A reverse repo is a transaction in which the City sells securities to a counterparty (e.g. investment dealer) and agrees to repurchase the securities from the counterparty at a fixed date. The counterparty in effect lends the seller (e.g. the City) money for the period of the agreement with terms of the agreement structured to compensate the buyer.

RISK: Degree of uncertainty of return on an asset.

SAFEKEEPING: A service which banks offer to clients for a fee, where physical securities are held in the bank's vault for protection and book-entry securities are on record with the Federal Reserve Bank or Depository Trust Company in the bank's name for the benefit of the client. As agent for the client, the safekeeping bank settles securities transactions, collects coupon payments, and redeems securities at maturity or on call date, if called.

SECURITIES AND EXCHANGE COMMISSION (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SECONDARY MARKET: A market for the repurchase and resale of outstanding issues following the initial distribution.

SECURITIES: Investment instruments such as notes, bonds, stocks, money market instruments and other instruments of indebtedness or equity.

SETTLEMENT DATE: The date on which a trade is cleared by delivery of securities against funds.

SPREAD: The difference between two figures or percentages. It may be the difference between the bid (price at which a prospective buyer offers to pay) and asked (price at which an owner offers to sell) prices of a quote, or between the amount paid when bought and the amount received when sold.

STRUCTURED NOTE: A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include "inverse floating rate" notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising and "dual index floaters", which pay interest based on the relationship between two other interest rates, for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

SUPRANATIONALS: are international institutions that provide development financing, advisory services and/or financial services to their member countries to achieve the overall goal of improving living standards through sustainable economic growth. The Government Code allows local agencies to purchase the United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank.

TIME DEPOSIT: A deposit with a California bank or savings and loan association for a specific amount and with a specific maturity date and interest rate. Deposits of up to $250,000 are insured by FDIC. Deposits over $250,000 are collateralized above the insurance with either government securities (at 110% of par value), first trust deeds (at 150% of par value), or letters of credit (at 105% of par value).

TOTAL RATE OF RETURN: A measure of a portfolio's performance over time. It is the internal rate of return which equates the beginning value of the portfolio with the ending value, and includes interest earnings and realized and unrealized gains and losses on the portfolio. For bonds held to maturity, total return is the yield to maturity.

TRUSTEE OR TRUST COMPANY OR TRUST DEPARTMENT OF A BANK: A financial institution with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

UNDERWRITER: A dealer which purchases a new issue of municipal securities for resale.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker/dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

U.S. GOVERNMENT AGENCY SECURITIES: Securities issued by U.S. government agencies, most of which are secured only by the credit worthiness of the particular agency. See AGENCIES.

U.S. TREASURY OBLIGATIONS: Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are the benchmark for interest rates on all other securities in the U.S. The Treasury issues both discounted securities and fixed coupon notes and bonds. The income from Treasury securities is exempt from state and local, but not federal, taxes.

TREASURY BILLS: Securities issued at a discount with initial maturities of one year or less. The Treasury currently issues three-month and six-month Treasury bills at regular weekly auctions. It also issues very short-term "cash management" bills as needed to smooth out cash flows.

TREASURY NOTES: Intermediate-term coupon-bearing securities with initial maturities of one year to ten years.

TREASURY BOND:Long-term coupon-bearing securities with initial maturities of ten years or longer.

UNREALIZED GAIN (OR LOSS): Gain or loss that has not become actual. It becomes a realized gain (or loss) when the security in which there is a gain or loss is actually sold. See REALIZED GAIN (OR LOSS).

VOLATILITY: Characteristic of a security, commodity or market to rise or fall sharply in price within a short-term period.

WEIGHTED AVERAGE MATURITY: The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

YIELD: The annual rate of return on an investment expressed as a percentage of the investment. See CURRENT YIELD; YIELD TO MATURITY.

YIELD CURVE: Graph showing the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.

YIELD TO MATURITY: Concept used to determine the rate of return if an investment is held to maturity. It takes into account purchase price, redemption value, time to maturity, coupon yield, and the time between interest payments. It is the rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

California LEGISLATIVE INFORMATION

AB-1933 Local government: investments. (2013-2014)

Assembly Bill No. 1933

CHAPTER 59

An act to amend Section 53601 of the Government Code, relating to local government.

[Approved by Governor June 25, 2014. Filed with Secretary of State June 25, 2014.]

LEGISLATIVE COUNSEL'S DIGEST

AB 1933, Levine. Local government: investments.

Existing law authorizes the legislative body of a local agency having money in a sinking fund or money in its treasury not required for immediate needs to invest any portion of the money that it deems wise or expedient in specified securities and financial instruments.

This bill would authorize the legislative body of a local agency to also invest in United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by certain banks, as specified, and would require these investments to be rated "AA" or better and to not exceed 30% of the agency's moneys that may be invested.

Vote: majority Appropriation: no Fiscal Committee: no Local Program: no

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 53601 of the Government Code is amended to read:

53601. This section shall apply to a local agency that is a city, a district, or other local agency that does not pool money in deposits or investments with other local agencies, other than local agencies that have the same governing body. However, Section 53635 shall apply to all local agencies that pool money in deposits or investments with other local agencies that have separate governing bodies. The legislative body of a local agency having moneys in a sinking fund or moneys in its treasury not required for the immediate needs of the local agency may invest any portion of the moneys that it deems wise or expedient in those investments set forth below. A local agency purchasing or obtaining any securities prescribed in this section, in a negotiable, bearer, registered, or nonregistered format, shall require delivery of the securities to the local agency, including those purchased for the agency by financial advisers, consultants, or managers using the agency's funds, by book entry, physical delivery, or by third-party custodial agreement. The transfer of securities to the counterparty bank's customer book entry account may be used for book entry delivery.

For purposes of this section, "counterparty" means the other party to the transaction. A counterparty bank's trust department or separate safekeeping department may be used for the physical delivery of the security if the security is held in the name of the local agency. Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. Where this section does not specify a limitation on the term or remaining maturity at the time of the investment, no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement or securities lending agreement authorized by this section, that at the time of the investment has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or as a part of an investment program approved by the legislative body no less than three months prior to the investment:

(a) Bonds issued by the local agency, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.

(b) 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.

(c) Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

(d) Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.

(e) Bonds, notes, warrants, or other evidences of indebtedness of a local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

(f) Federal agency or United States government-sponsored enterprise 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.

(g) Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days' maturity or 40 percent of the agency's moneys that may be invested pursuant to this section. However, no more than 30 percent of the agency's moneys may be invested in the bankers' acceptances of any one commercial bank pursuant to this section.

This subdivision does not preclude a municipal utility district from investing moneys in its treasury in a manner authorized by the Municipal Utility District Act (Division 6 (commencing with Section 11501) of the Public Utilities Code).

(h) Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or (2):

(1) The entity meets the following criteria:

(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 an NRSRO.

(2) The entity meets the following criteria:

(A) Is organized within the United States as a special purpose corporation, trust, or limited liability company.

(B) Has programwide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond.

(C) Has commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO.

Eligible commercial paper shall have a maximum maturity of 270 days or less. Local agencies, other than counties or a city and county, may invest no more than 25 percent of their moneys in eligible commercial paper. Local agencies, other than counties or a city and county, may purchase no more than 10 percent of the outstanding commercial paper of any single issuer. Counties or a city and county may invest in commercial paper pursuant to the concentration limits in subdivision (a) of Section 53635.

(i) 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 federally licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section. For purposes of this section, negotiable certificates of deposit do not come within Article 2 (commencing with Section 53630), except that the amount so invested shall be subject to the limitations of Section 53638. The legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the moneys are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or a person with investment decisionmaking authority in 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 the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

(j) (1) Investments in repurchase agreements or reverse repurchase agreements or securities lending agreements of securities authorized by this section, as long as the agreements are subject to this subdivision, including the delivery requirements specified in this section.

(2) Investments in repurchase agreements may be made, on an investment authorized in this section, when the term of the agreement does not exceed one year. The market value of securities that underlie 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. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.

(3) Reverse repurchase agreements or securities lending agreements may be utilized only when all of the following conditions are met:

(A) The security to be sold using a 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.

(B) 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.

(C) 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.

(D) Funds obtained or funds within the pool of an equivalent amount to that obtained from selling a security to a counterparty using 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.

(4) (A) 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 be made only upon prior approval of the governing body of the local agency and shall be made only 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.

(B) For purposes of this chapter, "significant banking relationship" means any of the following activities of a bank:

(i) Involvement in the creation, sale, purchase, or retirement of a local agency's bonds, warrants, notes, or other evidence of indebtedness.

(ii) Financing of a local agency's activities.

(iii) Acceptance of a local agency's securities or funds as deposits.

(5) (A) "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.

(B) "Securities," for purposes of repurchase under this subdivision, means securities of the same issuer, description, issue date, and maturity.

(C) "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.

(D) "Securities lending agreement" means an agreement under which a local agency agrees to transfer securities to a borrower who, in turn, agrees to provide collateral to the local agency. During the term of the agreement, both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the local agency in return for the collateral.

(E) For purposes of this section, the base value of the local agency's pool portfolio shall be that dollar amount obtained by totaling all cash balances placed in the pool by all pool participants, excluding any amounts obtained through selling securities by way of reverse repurchase agreements, securities lending agreements, or other similar borrowing methods.

(F) For purposes of this section, the spread is the difference between the cost of funds obtained using the reverse repurchase agreement and the earnings obtained on the reinvestment of the funds.

(k) Medium-term notes, defined 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 United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated "A" or better by an NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this section and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section.

(l) (1) Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations as authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, and that comply with the investment restrictions of this article and Article 2 (commencing with Section 53630). However, notwithstanding these restrictions, a counterparty to a reverse repurchase agreement or securities lending agreement is not required to be a primary dealer of the Federal Reserve Bank of New York if the company's board of directors finds that the counterparty presents a minimal risk of default, and the value of the securities underlying a repurchase agreement or securities lending agreement may be 100 percent of the sales price if the securities are marked to market daily.

(2) Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.).

(3) If investment is in shares issued pursuant to paragraph (1), the company shall have met either of the following criteria:

(A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs.

(B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive, and with assets under management in excess of five hundred million dollars ($500,000,000).

(4) If investment is in shares issued pursuant to paragraph (2), the company shall have met either of the following criteria:

(A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs.

(B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars ($500,000,000).

(5) The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include commission that the companies may charge and shall not exceed 20 percent of the agency's moneys that may be invested pursuant to this section. However, no more than 10 percent of the agency's funds may be invested in shares of beneficial interest of any one mutual fund pursuant to paragraph (1).

(m) Moneys 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 a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

(n) Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed by Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.

(o) A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond of a maximum of five years' maturity. Securities eligible for investment under this subdivision shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by an NRSRO and rated in a rating category of "AA" or its equivalent or better by an NRSRO. Purchase of securities authorized by this subdivision shall not exceed 20 percent of the agency's surplus moneys that may be invested pursuant to this section.

(p) Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (q), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

(1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.

(2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.

(3) The adviser has assets under management in excess of five hundred million dollars ($500,000,000).

(q) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated "AA" or better by an NRSRO and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section.

APPROVED AS TO FORM AND LEGALITY

CITY ATTORNEY

OAKLAND CITY COUNCIL

RESOLUTION NO. _____ C.M.S.

RESOLUTION ADOPTING THE CITY OF OAKLAND INVESTMENT POLICY FOR FISCAL YEAR 2015-2016

WHEREAS, the City of Oakland may annually render to the City's legislative body a statement of its investment policy; and

WHEREAS, as part of best practice and sound financial management the City will continue to submit its annual investment policy to the City's legislative body; and

WHEREAS, last year, the City revised and adopted an Investment Policy for fiscal year 2014-2015; and

WHEREAS, a proposed City of Oakland Investment Policy for fiscal year 2015-16 is presented herewith, to be in effect until a subsequent policy is adopted; now therefore be it

RESOLVED, that the proposed City of Oakland Investment Policy for fiscal year 2015-2016 attached hereto as Exhibit A is adopted; and be it

FURTHER RESOLVED, that this Resolution shall take effect immediately upon its passage.

In Council, Oakland, California, ______________________, 2015

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, CAMPBELL-WASHINGTON, GALLO, KALB, KAPLAN, REID, GUILLEN and PRESIDENT GIBSON MCELHANEY

NOES-

ABSENT-

ABSTENTION-

ATTEST: ______________________________
LATONDA SIMMONS

City Clerk and Clerk of the Council of the
City of Oakland, California

APPROVED AS TO FORM AND LEGALITY

BY: ____________________
ORSA COUNSEL

OAKLAND REDEVELOPMENT SUCCESSOR AGENCY

RESOLUTION NO. 2015-____________

RESOLUTION PURSUANT TO GOVERNMENT CODE SECTION 53607 DELEGATING INVESTMENT AUTHORITY OF THE OAKLAND REDEVELOPMENT SUCCESSOR AGENCY TO THE AGENCY TREASURER FOR FISCAL YEAR 2015-2016

WHEREAS, pursuant to Government Code Section 53607, a legislative body of a local agency has the authority to delegate for a one-year period investment authority to the treasurer and that such delegation may be renewed each year; and

WHEREAS, it is the intent of the Oakland Redevelopment Successor Agency to delegate to the Agency Treasurer for Fiscal Year 2015-2016 the authority to invest or to reinvest funds of the Agency, or to sell or exchange securities so purchased pursuant to Government Code Section 53607; and

WHEREAS, in compliance with the laws of the State of California and as part of best practice and sound financial management the Agency Treasurer shall invest only in permitted investments pursuant to Government Code Section 53601 et. seq. and make regular reports of those transactions to the Agency; now therefore be it

RESOLVED, that the Successor Agency hereby determines that the preceding recitals are true and correct and hereby adopts and incorporates them into this Resolution; and be it

FURTHER RESOLVED, that the Successor Agency hereby delegates to the Agency Treasurer the authority to invest or to reinvest funds of the Agency, or to sell or exchange securities so purchased for Fiscal Year 2015-2016; and be it

FURTHER RESOLVED, that the Agency Treasurer shall assume full responsibility for these transactions until the delegation of authority is revoked or expires; and be it

FURTHER RESOLVED, that this Resolution shall take effect immediately upon its passage.

IN SUCCESSOR AGENCY, OAKLAND, CALIFORNIA, ___________, 2015

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, GALLO, GUILLEN, KALB, KAPLAN, REID, WASHINGTON, and PRESIDENT GIBSON MCELHANEY

NOES -
ABSENT -
ABSTENTION -

ATTEST:_________________________________
LATONDA SIMMONS

Secretary of the Oakland
Redevelopment Successor Agency

FILED
OFFICE OF THE CITY CLERK
OAKLAND

2015 MAY 28 AM 9:56

APPROVED AS TO FORM AND LEGALITY

CITY ATTORNEY

OAKLAND CITY COUNCIL

RESOLUTION NO. 85653 C.M.S.

RESOLUTION ADOPTING THE CITY OF OAKLAND INVESTMENT POLICY FOR FISCAL YEAR 2015-2016

WHEREAS, the City of Oakland may annually render to the City's legislative body a statement of its investment policy; and

WHEREAS, as part of best practice and sound financial management the City will continue to submit its annual investment policy to the City's legislative body; and

WHEREAS, last year, the City revised and adopted an Investment Policy for fiscal year 2014-2015; and

WHEREAS, a proposed City of Oakland Investment Policy for fiscal year 2015-16 is presented herewith, to be in effect until a subsequent policy is adopted; now therefore be it

RESOLVED, that the proposed City of Oakland Investment Policy for fiscal year 2015-2016 attached hereto as Exhibit A is adopted; and be it

FURTHER RESOLVED, that this Resolution shall take effect immediately upon its passage.

In Council, Oakland, California, JUN 17 2015, 2015

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, CAMPBELL-WASHINGTON, GALLO, KALB, ~~KAPLAN~~, REID, GUILLEN and PRESIDENT GIBSON MCELHANEY- 7

NOES- 0

ABSENT- 1 kaplan

ABSTENTION- 0

ATTEST: Latonda Simmons

LATONDA SIMMONS

City Clerk and Clerk of the Council of the City of Oakland, California