



**INVESTMENT POLICY**  
**FISCAL YEAR 2018 - 2019**

**Shaun L. Farrell, CCMT**  
**Galt City Treasurer**  
**June, 2018**

## CITY OF GALT

# INVESTMENT POLICY

1. **Policy:** This policy is intended to provide guidelines for the prudent investment of funds of the City of Galt and to outline the policies for maximizing the efficiency of the City's cash management. The ultimate goal is to enhance the economic status of the City consistent with the prudent protection of the City's investments. This investment policy has been prepared in conformance with all pertinent existing laws of the State of California, including California Government Code Sections 53600, *et seq.*
2. **Scope:** This investment policy applies to all financial assets and investment activities of the City of Galt. Investments for the City will be made on all funds identified in the Comprehensive Annual Financial Report (CAFR) on a pooled basis including the General Fund, Special Revenue Funds and any funds subsequently created. Bond fund investments will be held separately and made in accordance with the bond debenture requirements.
3. **Prudence:** The City of Galt operates its investment portfolio under the Prudent Investor Standard (California Government Code Section 53600.3) 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 need of the City, that a prudent person 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 City".

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4. **Objective:** The primary objective of investment activities, in order of priority, shall be:

4.1. **Safety.** The safety associated with an investment refers to the potential loss of principal, accrued interest or a combination of these. The Treasurer seeks to mitigate credit risk by monitoring financial institutions with which he/she will do business, and by careful scrutiny of the credit worthiness of the investment instruments as well as the institutions. Invested funds shall be diversified to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities.

4.2. **Liquidity.** Availability of sufficient cash to pay for current expenditures shall be maintained in the City's checking account, money market funds, local government investment pools that offer daily liquidity, or short-term securities that can easily be converted into cash because they have secondary markets. The investment portfolio shall be structured in a manner which strives to time the maturity of securities with cash requirements.

4.3. **Return on Investment.** Yield on investments shall be considered only after the basic requirements of safety and liquidity have been met.

5. **Delegation of Authority:** Under California Government Code Section 53601, the legislative body of a local agency (i.e., the City Council) is authorized to invest surplus moneys as specified in that code section. In accordance with California Government Code Section 53607, this authority is delegated to the City Treasurer for a one-year period by the City Council. Subject to review, the City Council may renew the delegation of authority under this code section each year. The City Treasurer will be responsible for all investment transactions and shall establish a system of controls to regulate the activities of officials involved in any aspect of the investment program.

In case of the City Treasurer's absence, the City Council delegates investment authority in the following order to (1) the Finance Director and (2) the City Manager. No person may engage in an investment transaction except as provided under the terms of this policy.

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### 6. **Duties and Responsibilities:**

6.1. City Treasurer: Charged with responsibility for all public funds and securities belonging to or under the control of the City, and for the deposit and investment of those funds in accordance with the principles of sound treasury management and in accordance with the applicable laws, ordinances and policies adopted by the City.

6.2. Finance Department Staff: Charged with recording investment activity in the accounting records and with verifying the Treasurer's records with broker confirmations, bank statements and safekeeping records.

6.3. Finance Director: Charged with responsibility (in the absence of the Treasurer) for all public funds and securities belonging to or under the control of the City and for their deposit. Duties related to investment activities shall be performed by staff other than those responsible for the accounting of those investments.

6.4. Investment Committee: Investment Committee shall be comprised of the City Treasurer, Finance Director and City Manager. Charged with responsibility for all investment oversight, the Committee shall act upon the recommendation of the majority of Committee members. The Committee shall review the monthly investment reports, investment activity and strategies being undertaken.

6.5. City Council: May delegate to the City Treasurer for a one-year period the authority to invest the City's funds. Subject to review, the City Council may renew the delegation of this authority each year. The City Council shall also annually consider and approve a written Statement of Investment Policy at a public meeting. Any change to the Investment Policy at any time shall also be considered by the City Council at a public meeting.

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7. **Ethics and Conflicts of Interest:** Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officers shall disclose any material financial interest in financial institutions that conduct business with this City, and they shall further disclose any large personal financial / investment positions that could be related to the performance of the City's portfolio. Employees and officers shall subordinate their personal investment preferences to those of the City, particularly with regard to the timing of transactions, and shall avoid transactions that might impair public confidence.
8. **Authorized Financial Dealers and Institutions:** To promote the optimum yield on the investment of City funds, investment procedures shall be designed to encourage competitive bidding on transactions from approved financial institutions or broker/dealers.

On an annual basis, the Treasurer shall recommend a list of at least two broker/dealers who are authorized to provide investment services. The list shall be approved by the Investment Committee and the City Council. All broker/dealers who wish to be considered for the list must meet the following minimum requirements:

- 8.1. Must certify that they have read and agree to comply with the Investment Policy of the City
- 8.2. Must be a "primary" or regional dealer that qualifies under the Securities and Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule)
- 8.3. Must be experienced in institutional trading practices and familiar with the California Government Code as related to investments for local governmental agencies
- 8.4. Must have been in business for at least three years
- 8.5. Must provide current audited financial statements
- 8.6. Must provide proof of National Association of Security Dealers certification
- 8.7. All financial institutions in which the City's public funds are deposited will supply the Treasurer with the following: current audited financial statements, depository contracts, proof that the institution is state or federally chartered.

If a third party investment advisor is authorized to conduct investment transactions on the City's behalf, the investment advisor may use their own list of approved broker/dealers and financial institutions. The investment advisor's approved list must be made available to the City upon request.

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9. **Authorized and Suitable Investments:** The City of Galt is provided a broad spectrum of eligible investments under California Government Code Section 53600 et seq. The City may choose to restrict its permitted investments to a smaller list of securities that fits more closely the City's cash flow needs and requirements for liquidity. If a type of investment is added to California State Code 53600, it will not be added to the City's Authorized Investment List until this policy is amended and approved by the City Council.

Permitted Investments	City of Galt Dollar or Percentage Limits	City of Galt Maturity Limits
Securities of the U. S Government, including Government Agencies (i.e. FNMA, FHLMC and FHLB, etc)	No limit	5 Years
Local Agency Investment Fund (LAIF)	\$65 million	None
Public Funds Checking or Savings Account	No limit	None
Money Market Account	No limit	None
Certificates of Deposit	30% of portfolio	5 Years
Registered state warrants or bonds of the State of California	30% of portfolio	5 Years
City of Galt bonds	30% of portfolio	5 Years
Commercial Paper	25% of portfolio; 10% per issuer; Rating of 'A1/P1' or higher from S&P and Moody's	270 Days
Repurchase Agreements	20% of portfolio only with Master Repurchase Agreement	90 Days

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**One of the purposes of this Investment Policy is to define what investments are permitted. If a type of security is not specifically authorized by this policy, it is not a permitted investment.**

10. **Review of Investment Portfolio**: The securities held by the City must be in compliance with the Authorized Investments, at the time of purchase. The City Treasurer shall review the portfolio monthly to identify any securities that are no longer in compliance. The Treasurer shall report any major and critical incidences of noncompliance in the monthly report to the City Council and Investment Committee.
  
11. **Investment Pools**: A thorough investigation of any investment pool is required prior to investing and should be monitored on an ongoing basis. Requisite information on the pool includes the following:
  - 11.1. A description of how securities are safeguarded (including the settlement process) and how often the securities are marked to market and how often an audit is conducted;
  - 11.2. A description of who may invest in the program, how often, what size deposits and withdrawals are permitted;
  - 11.3. A description of interest calculations and how it is distributed, and how gains and losses are distributed;
  - 11.4. A schedule for receiving statements and portfolio listings; a fee schedule that discloses when and how fees are assessed;
  - 11.5. Does the pool/fund maintain a reserve or retain earnings or is all income after expenses distributed to participants.

The purpose of this investigation is to determine the suitability of a pool or fund and evaluate the risk of placing funds with that pool or fund.

12. **Collateralization**: California Government Code 53656 and 53658 regarding collateralization of deposits of public funds requires that securities be held by an agent (i.e., a trust company) of the bank, which may include the bank's trust department only if acceptable to both the bank and the Treasurer.

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Under the provisions of California Government Code Section 53652, banks are required to secure the deposits of public funds, including certificates of deposits, by (a) pledging government securities with a value of 110% of the principal and accrued interest; (b) pledging first trust deed mortgage notes having a value of 150% of the total agency deposit; or, (c) a letter of credit drawn on the Federal Home Loan Bank at 105% of the total agency deposit. Deposits must be secured at all times with eligible securities pursuant to Section 53651.

Repurchase Agreements shall be collateralized in accordance with terms specified in the Master Repurchase Agreement. The valuation of collateral securing a Repurchase Agreement will be verified and monitored on a daily basis to ensure a minimum of 102% of the value of the transaction being held by the City's depository agent.

The Treasurer, at his/her discretion, may waive the collateral requirements for deposits up to \$250,000 which are fully insured by the Federal Deposit Insurance Corporation.

13. **Safekeeping and Custody**: All securities will be received and delivered on a delivery versus payment (DVP) basis. Securities will be held by a third party bank trust department acting as agent for the City under the terms of a custody agreement executed by the bank and the City, as long the custodian agreement is separate and apart from the banking agreement.
  
14. **Diversification**: The City of Galt recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. To minimize the City's exposure to these types of risk, the portfolio should be diversified among several types of institutions, instruments and maturities. The City Treasurer shall minimize default risk by prudently selecting only instruments and institutions, which at the time of placement have been evaluated for their financial viability and compliance with this policy. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio. Risk shall also be managed by subscribing to a portfolio management philosophy that helps to control market and interest rate risk by matching investments with cash flow requirements.



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15. **Maximum Maturities**: Every effort will be made to match investment maturities to cash flow needs. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a specific requirement and approved by the City Council, no investment may be made with a maturity greater than 5 years.
16. **Internal Controls**: Internal policies and procedures have been developed and documented to assure that appropriate controls are in place to document and confirm all transactions. An independent analysis by an external auditor shall be conducted annually to review internal control, account activity and compliance with this Investment Policy. To provide further protection of the City's funds, written or electronic instructions require the City's bank to obtain verification of all wire transfers from two of the three following officers: City Treasurer, Finance Director and/or City Manager.
17. **Performance Standards**: The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with investment risk constraints and cash flow needs.

The City's basic investment strategy is to buy and hold investments until maturity. However, the Treasurer may sell a security due to adverse changes in credit risk or due to unexpected cash flow needs.

The Market Yield benchmark used by the Treasurer is to determine whether market yields are being achieved and shall be the rates of return from the following combination of indices: Local Agency Investment Fund (LAIF) and 3-month, 6-month, and 1-year Treasury Bills.

The Investment Policy shall be reviewed at least annually by the Investment Committee and approved by the City Council to ensure its consistency with the overall objectives of safety (including diversification), liquidity and return, as well as its relevance to current law and financial/economic trends.

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18. **Reporting:** In compliance with Government Code Sections 53607, the Treasurer shall file a monthly investment report with the City Clerk who will submit copies to the City Council and the Investment Committee. The investment report will be placed on the agenda for the next monthly meeting of the City Council; any Council Member may request inclusion of the report on the Council's agenda at any time. This report shall certify that the Treasurer has complied with the City's investment procedures and will include a Summary, which provides a condensed summary of the most important information in the report, plus a detailed report covering the following elements:
- 18.1. Type of investments and percentage that each investment type represents in the portfolio
  - 18.2. Issuer
  - 18.3. Purchase date
  - 18.4. Date of maturity
  - 18.5. Amount of deposit or cost of the investment
  - 18.6. Face value of the securities
  - 18.7. Current market value of the securities
  - 18.8. Portfolio yield
  - 18.9. Interest earnings
  - 18.10. Statement on availability of funds to meet its obligations within the next six months per Government Code 53646(b)
  - 18.11. Statement of compliance of the portfolio with the investment policy or an explanation as to why the portfolio is not in compliance
19. **Investment Policy Adoption:** The City Treasurer shall annually render to the Investment Committee and the City Council a Statement of Investment Policy as required in Government Code Section 53646(a)2.

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**Shaun L. Farrell, CCMT**  
**City Treasurer**  
**City of Galt**

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### 20. **Glossary**

**ARBITRAGE:** a technique used to take advantage of price differences in separate markets. This is accomplished by purchasing securities, negotiable instruments or currencies in one market for immediate sale in another market at a better price.

**BANKERS ACCEPTANCE (BA):** a bearer time draft for a specified amount payable on a specified date. It is drawn on a bank by an individual or business seeking to finance domestic or international trade. The BA is collateralized by commodity products. Sale of goods is usually the source of the borrower's repayment to the bank. The bank finances the borrower's transaction and then often sells the BA on a discount basis to an investor. At maturity, the bank is repaid and the investor holding the BA receives par value from the bank.

**BEAR MARKET:** a period of generally pessimistic attitudes and declining market prices.

**BOND:** an interest-bearing security issued by a corporation, quasi-governmental agency or other body, which can be executed through a bank or trust company. A bond is a form of debt with an interest rate, maturity, and face value, and is usually secured by specific assets. Most bonds have a maturity of greater than one year, and generally pay interest semiannually.

**BOND RATING:** the classification of a bond's investment quality.

**BOOK VALUE:** the amount at which a security is carried on the books of the holder or issuer. The book value is often the cost, plus or minus amortization, and may differ significantly from the market value.

**BULL MARKET:** a period of generally optimistic attitudes and increasing market prices.

**CERTIFICATE OF DEPOSIT (CD):** debt instrument by a bank that usually pays interest. Institutional CD's are issued in denominations of \$250,000 or more. Maturities range from a few weeks to several years. Interest rates are set by competitive forces in the marketplace.

**COMMERCIAL PAPER:** short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations, and other borrowers to investors with temporarily idle cash. Such instruments are unsecured and usually discounted,

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although some are interest-bearing.

**COMMISSION:** the brokers or agent's fee for purchasing or selling securities for a client.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** federal agency established in 1933 that guarantees (within limits) funds on deposit in member banks and performs other functions such as making loans to or buying assets from members banks to facilitate mergers or prevent failures.

**FEDERAL RESERVE SYSTEM:** the central bank of the United States which consists of a seven member Board of Governors, 12 regional banks and approximately 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.

**FISCAL YEAR:** an accounting or tax period comprising any twelve month period. The City's fiscal year begins on July 1.

**FULL FAITH AND CREDIT:** the unconditional guarantee of the United States government backing a debt for repayment.

**INTEREST RATE:** the interest payable each year on borrowed funds, expresses as a percentage of the principal.

**INVESTMENT:** use of capital to create more money, either through income-producing vehicles or through more risk-oriented ventures designed to result in capital gains.

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

**LAIF:** trade name for the California State Local Agency Investment Fund.

**LIQUIDITY:** the ability to convert a security into cash promptly with minimum risk of principal.

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

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

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

**PRINCIPAL:** the face or par value of an instrument.

**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:** the designation used by investors' services to rate the quality of a security's creditworthiness. Moody's ratings range from the highest Aaa, down through Aa, A, Bbb, Ba, B, etc. while Standard and Poor's rating range from the highest AAA, down through AA, A, BBB, BB, B, etc.

**REFINANCING:** rolling over the principal on securities that have reached maturity or replacing them with the sale of new issues. The object may be to save interest costs or to extend the maturity of the loan.

**REPURCHASE AGREEMENT (REPO):** a transaction where the seller (bank) agrees to buy back from the buyer (City) the securities at an agreed upon price after a stated period of time.

**REVERSE REPURCHASE AGREEMENT (REVERSE REPO):** a transaction where the seller (City) agrees to buy back from the buyer (bank) the securities at an agreed upon price after a stated period of time.

**SAFEKEEPING:** a service offered to customers for a fee, where securities are held in the vaults for protection.

**SECURITIES:** investment instruments such as bonds, stocks and other instruments of indebtedness or equity.

**SPREAD:** the difference between two figures or percentages. For example, it may be the difference between the bid and asked prices of a quote, or between the amount paid when brought and the amount received when sold.

**TREASURY BILL (T-BILL):** U.S. Treasury Bills are short-term, direct obligations of the U.S. Government issued with original maturities of 13 weeks, 26 weeks and 52 weeks; sold in minimum amounts of \$10,000 in multiples of \$5,000 above the minimum. Treasury Bills are issued in book entry form only and are sold on a discount basis.

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**TRUSTEE:** a bank designated as the custodian of funds and the official representative for bondholders.

**UNDERWRITER:** a dealer bank or financial institution which arranges for the sale and distribution of a large batch of securities and assumes the responsibility for paying the net purchase price.

**U.S. GOVERNMENT AGENCIES:** instruments issued by various U.S. government agencies most of which are secured only by the credit worthiness of the particular agency.

**YIELD:** the annual rate of return on an investment, expressed as a percentage of the investment.

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### **LIST OF APPROVED BROKERS**

Robinson Capital Management (RCM)  
Attn: Doug Robinson  
3030 Bridgeway, Suite 212  
Sausalito, California 94965  
(800) 334-8140

Ladenburg Thalmann & Co. Inc  
Attn: Robert Allen  
2020 Main Street, Suite 650  
Irvine, California 92614  
(800) 540-7000

### **LIST OF APPROVED CUSTODIANS FOR SAFEKEEPING OF SECURITIES**

City National Bank  
Attn: Michele Katz  
555 South Flower Street, 10<sup>th</sup> Floor  
Los Angeles, California 90071  
(213) 673-8853