

RESOLUTION NO. 8446

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF REDLANDS  
ESTABLISHING A STATEMENT OF INVESTMENT POLICY AND  
RESCINDING RESOLUTION NO. 8309

WHEREAS, pursuant to Government Code sections 41001 through 41007, the City Treasurer shall comply with all laws governing the deposit and securing of public funds; and

WHEREAS, investment guidelines and procedures are required to administer the daily investing of the City's surplus cash; and

WHEREAS, an investment policy serves as the foundation of a local agency's investment goals and priorities; and

WHEREAS, AB 2853 (2004) amended Government Code section 53646, making the annual review and approval of investment policies of local agencies optional, which was previously compulsory; and

WHEREAS, from time to time the policies related to investing need to be revised to reflect investment instrument changes, economic conditions, and financial market considerations;

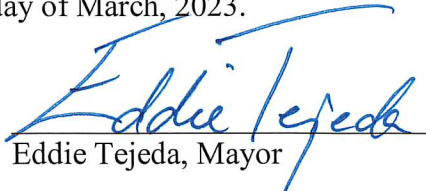
NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF REDLANDS AS FOLLOWS:

Section 1. The City Council hereby adopts the Statement of Investment Policy ("Policy") attached hereto as Exhibit "A".

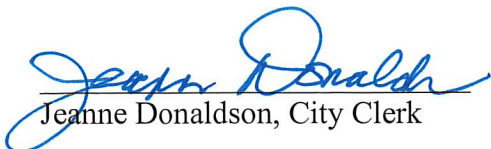
Section 2. This Resolution and the Policy established by this Resolution, shall become effective, March 16, 2023.

Section 3. That Resolution No. 8309 is hereby rescinded.

ADOPTED, SIGNED AND APPROVED this 7th day of March, 2023.

  
Eddie Tejada, Mayor

ATTEST:

  
Jeanne Donaldson, City Clerk

I, Jeanne Donaldson, City Clerk of the City of Redlands, hereby certify that the foregoing resolution was duly adopted by the City Council at a regular meeting thereof held on the 7th day of March, 2023, by the following vote:

AYES: Councilmembers Barich, Davis, Guzman-Lowery, Saucedo; Mayor Tejada  
NOES: None  
ABSENT: None  
ABSTAINED: None

  
\_\_\_\_\_  
Jeanne Donaldson, City Clerk

# **STATEMENT OF INVESTMENT POLICY FOR THE CITY OF REDLANDS, CALIFORNIA**

---

## **1.0 INTRODUCTION**

This Investment Policy ("Policy") provides formalized framework for the prudent investment of unexpended cash of the City of Redlands ("the City") and its related authorities and agencies. The City's policy is to invest public funds in a manner which seeks to provide high investment return consistent with the public trust and the prioritized objectives of safety, liquidity and yield, while meeting the City's daily cash flow requirements and conforming to all state and local statutes governing the investment of public funds.

## **2.0 SCOPE**

This Policy applies to all monies under the direct oversight of the City Treasurer, including those of the City, the Successor Agency to the former Redevelopment Agency of the City of Redlands, the Redlands Public Improvement Corporation and the Redlands Financing Authority. This Policy is generally applicable to bond proceeds with consideration given to specific provisions of each issuance. Reports of the investment of bond proceeds are summarized quarterly by the City Treasurer and are attached to the Treasurer's quarterly report of the pooled investment fund. The employees' retirement and deferred compensation funds are not included in this Policy.

## **3.0 PRUDENCE**

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.

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

## **4.0 OBJECTIVES**

The City's cash management system is designed to accurately monitor and forecast revenues and expenditures thus enabling the City Treasurer to invest funds to the fullest extent possible. The City Treasurer maintains a diversified portfolio to accomplish the primary objectives of safety, liquidity, and yield (in that order of priority).

4.1 Safety: The safety/risk associated with an investment refers to the potential loss of principal, accrued interest or a combination of these. The City seeks to mitigate credit risk by prequalifying and continual monitoring of financial institutions with which it will do business, and by careful scrutiny of the credit worthiness of the investment instruments as well as the institutions. The City seeks to mitigate rate risk through diversification of instruments as well as maturities.

4.2 Liquidity: The portfolio will be structured with sufficient liquidity to allow the City to meet anticipated cash requirements. This will be accomplished through diversity of instruments to include those with active secondary markets, those which can match maturities to expected cash needs, the State Local Agency Investment Fund (LAIF), the California Asset Management Program (CAMP), and the California Cooperative Liquid Assets Securities System (CLASS) with immediate withdrawal provision.

4.3 Yield: A competitive market rate of return is the third objective of the City's investment portfolio after the fundamental requirements of safety and liquidity have been met.

## **5.0 DELEGATION OF AUTHORITY**

California Government Code Section 53607 provides the authority for the City Council to invest the funds of the City or to delegate the full responsibility to the treasurer of the City.

5.1 City Council: By resolution, the City Council delegates authority to the City Treasurer for investing City funds in accordance with California Government Code Section 53600, et. seq.

5.2 City Treasurer: The execution of investment transactions on a daily basis will be conducted by the City Treasurer. In the event of a prolonged absence or vacancy in the Treasurers position, the City Council may direct staff to engage the services of one or more external investment managers to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. Such external investment managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940. The City Treasurer has established a system of controls and a segregation of responsibilities of investment functions to assure maintenance of internal control over the investment functions. At the direction of the City Treasurer, the Revenue Supervisor or Designee will keep a complete record of all investment transactions.

5.3 The City Treasurer has the authority to recommend changes in this Policy at any time in order to carry out the duties as chief investment officer for the City. All such recommended amendments to this Policy shall be approved by the City Council to be effective.

5.4 Government Code Section 36501 states that there must be an office of City Treasurer. The City Treasurer of the City of Redlands is an elected position.

## **6.0 ETHICS AND CONFLICTS OF INTEREST**

The City Treasurer and employees of the City 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 the ability to make impartial investment decisions. The City Treasurer is governed by The Political Reform Act of 1974 regarding disclosure of material financial interests.

## **7.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

The City Treasurer shall transact business only with banks, savings and loans, and securities dealers.

7.1 Authorization: The City may conduct business with major registered broker/dealers and with dealers designated Primary by the Federal Reserve provided all the following criteria are met. Broker/Dealers must: 1) have offices located in the State of California, 2) be adequately capitalized, 3) make markets in securities appropriate to the City's needs, and 4) agree to abide by the conditions set forth in this Policy. The City Treasurer shall investigate all institutions that wish to do business with the City and will annually review the financial condition and registrations of qualified institutions.

7.2 Rating: With the exception of the LAIF and U.S. Treasury and Government Agency issues, investments shall be placed only in those instruments and institutions rated favorably as determined by the City Treasurer.

## 8.0 AUTHORIZED AND SUITABLE INVESTMENTS

California Government Code Section 53601 defines eligible securities for the investment of surplus funds by local agencies. Surplus funds of the City are invested in compliance with this statute and as further limited in this Policy.

The City's investments are permitted as listed below and defined in the subsections following.

<b>Summary of Authorized Investments</b>					
<b>#</b>	<b>Type of Investment</b>	<b>CA Gov. Code % of Funds Permitted</b>	<b>City of Redlands% Funds Authorized</b>	<b>CA Gov. Code Max Final Maturity</b>	<b>Redlands Maximum Final Maturity</b>
8.1	United States Treasury notes, bonds, bills or certificates of indebtedness	100%	100%	5 Years	5 Years
8.2	Federal Agency or U.S. government sponsored enterprise (GSE) obligations	100%	100%	5 years	5 years
8.3	Banker's Acceptances	40%; 30% of a single issuer	40%; 30% of a single issuer	180 days	180 days
8.4	Commercial Paper of "Prime" quality	25%; 10% of a single issuer	15%; 10% of a single issuer	270 days	270 days
8.5	Negotiable Certificates of Deposits	30%	30%	5 years	5 years
8.6	Time Certificates of Deposit (TCD)	100%	30%; 15% of a single institution	5 years	5 Years
8.7	Repurchase Agreements	100%	100%	1 year	1 year
8.8	Medium Term Corporate Notes	30%; 10% of a single issuer	20%; 10% of a single issuer	5 years	5 years
8.9	Other State of California Local Agency bonds, notes, warrants or other evidence of indebtedness	100%	100%	5 years	5 years
8.10	Shares of beneficial interest, Mutual Funds	20%; 10% of a single fund	10%	N/A	N/A
8.11	Investment Funds: LAIF, CAMP and CLASS	\$75 million per account	\$75 million per account	N/A	N/A
8.12	Bonds issued by the City or agency of the City	100%	100%	5 Years	5 Years
8.13	City of Redlands Specific Program Short-term Loans	N/A	With Council Approval	N/A	N/A

8.1 U.S. Government: United States Treasury Bills, Notes, and Bonds are backed by the full faith and credit of the United States Government. There shall be no limitation as to  
Revised March 2023

percentage of the portfolio invested in this category. Maturities are limited to a maximum of five years.

8.2 U.S. Agencies: The purchase of instruments of, or issued by, a federal agency or a United States government-sponsored enterprise will be limited to a maximum maturity of five years. Such agencies include, but are not limited to, the Federal Farm Credit Bank, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Student Loan Marketing Association, Tennessee Valley Authority, and the Federal National Mortgage Association.

8.3 Bankers' Acceptances: Bills of exchange or time drafts drawn on and accepted by commercial banks which are eligible for purchase by the Federal Reserve System are known as bankers' acceptances. Purchases of these instruments shall not exceed 180 days to maturity or 40 percent of an agency's surplus funds. A maximum of 30 percent may be invested in the bankers' acceptances of any one commercial bank.

8.4 Commercial Paper: This short-term unsecured promissory note is issued to finance short-term credit needs. Eligible paper is that which is ranked "P1" by Moody's Investor Services or "A1" by Standard & Poor's, issued by a domestic corporation having assets in excess of \$500,000,000, and having an "A" or better rating on issuer's debt. Purchases of commercial paper may not exceed 270 days or represent more than 10 percent of the outstanding paper of an issuing corporation. Commercial paper purchases will be limited to 15 percent of the City's portfolio.

8.5 Negotiable Certificates of Deposit (NCDs): Allowable NCDs are issued by a nationally or state-chartered bank or a state or federal association or by a federally licensed or state-licensed branch of a foreign bank. Purchases of these investments shall not exceed 30 percent of surplus funds in NCDs limited to institutions rated "Aa" or better by Moody's or "AA-" or better by Standard & Poor's CD Rating Services. A rating equivalent of A or better is required for those institutions not rated by Moody's or Standard & Poor's. NCDs are considered liquid, trading actively in the secondary market.

8.6 Certificates of Deposit (CDs): Certificates of deposit or "time deposits" of up to \$250,000 are federally insured. Beyond that amount, these CDs must be collateralized with the collateral held separately from the issuing institution. The value of the investment must have collateral of at least 110 percent if government securities, or collateral of at least 150 percent if mortgage-backed securities. CDs shall be limited to a maximum of 30 percent of the portfolio and to a maximum of 15 percent deposited in any one institution. In addition, time deposits shall be placed in institutions meeting all capital requirements and which maintain a rating of superior, excellent, or sound according to at least two bank rating services.

8.7 Repurchase Agreements: The city may invest in repurchase agreements with banks and dealers of primary dealer status recognized by the Federal Reserve with which the city has entered into a master repurchase contract which specifies terms and conditions of repurchase agreements. The maturity of repurchase agreements shall not exceed one year. The market value of securities used as collateral for repurchase agreements shall be monitored by the City Treasurer's office and will not be allowed to fall below 102 percent of the value of the repurchase agreement. In order to conform with provisions of the Federal Bankruptcy Code, which provide

for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be eligible negotiable certificates of deposit, bankers' acceptances, commercial paper, or securities that are direct obligations of or that are fully guaranteed by the United States or any agency of the United States. These eligible securities are further defined by California Government Code Section 53651.

8.8 Medium Term Notes: These promissory notes are issued by corporations, for a term not to exceed five years, to finance their medium term credit needs. Eligible notes are those which are rated "A" or better by a nationally recognized rating service. These notes are limited to 20% of the City's portfolio.

8.9 Local Agencies within California: The City may invest in bonds, notes, warrants, or other indebtedness of other local agencies within California.

8.10 Mutual Funds: Shares of beneficial interest (mutual funds) issued by diversified management companies investing in securities/obligations authorized by California Government Code Section 53600, et. seq., and complying with Section 53630, et. seq., are permitted investments. Section 53601(l) further defines requirements. A maximum of 10 percent of the portfolio may be so invested.

8.11 Investment Funds: The LAIF has been established by the State Treasurer for the benefit of local agencies. The California Asset Management Program (CAMP) is a California Joint Powers Authority established to provide California Public Agencies with professional investment services similar to the LAIF. The California Cooperative Liquid Assets Securities System (CLASS) is another Joint Powers Authority investment pool that provides public agencies the opportunity to invest funds. The city may invest in the LAIF, the CAMP, and the California CLASS up to the maximum permitted by the funds.

8.12 Bond Funds Permitted Investments: The City or the Successor Agency to the former Redevelopment Agency of the City of Redlands, as appropriate, may, with the written approval of the City Treasurer, invest bond proceeds and other monies related to Agency and City bonds in investments permitted by the authorizing documents (including, but not limited to, a resolution of issuance, fiscal agent agreement, trust agreement or bond indenture).

8.13 With the approval of the City Council and concurrence of the City Treasurer, funds may be invested in short- term loans to provide specific funding to City programs.

**Ineligible Investments:** Government Code Section 53601.6 prohibits the City from investing in inverse floaters, range notes, or mortgage-derived, interest-only strips. It further prohibits investing in securities that would result in zero interest accrual if held to maturity. Investments not described herein, including but not limited to common stocks, financial futures contracts and options, and reverse repurchase agreements are prohibited in this fund.

**Downgrade Evaluation:** In the event that a security's rating is downgraded below allowable levels, the City Treasurer will evaluate if continuing to hold the security or selling the security is in the best interest of the City.



## **9.0 COLLATERAL**

The issue of collateral requirements is addressed in California Government Code Section 53652. All active and inactive deposits must be secured at all times with eligible securities in securities pools pursuant to Government Code Sections 53656 and 53657. Eligible securities held as collateral shall have a market value in excess of the total amount of all deposits of a depository as follows:

- Government securities, at least 10 percent in excess
- Mortgage backed securities, at least 50 percent in excess
- Letters of credit, at least 5 percent in excess

## **10.0 SAFEKEEPING AND CUSTODY**

Security transactions entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities exceeding 30 days to maturity shall be held by a third party custodian designated by the City Treasurer. Evidence of account for each time deposit will be held in the City Treasurer's office.

## **11.0 DIVERSIFICATION**

In an effort to reduce portfolio risk while attaining market average rates, the City's portfolio will be suitably diversified by type, institution and maturity.

11.1 Security Type and Institution: With the exception of U.S. Treasury securities and authorized pools, investments are further limited by specific language relating to each investment type as stated in Section 8 of this Policy.

11.2 Maximum Maturities: To the extent possible, the City Treasurer will attempt to match investments with anticipated cash flow requirements. The City's portfolio will not be directly invested in securities which mature more than five years from the date of purchase, except for reserve funds which may be invested in securities exceeding five years (maturity of such investments should coincide as nearly as practicable with expected use of funds).

## **12.0 INTERNAL CONTROLS**

A system of internal controls will be maintained to assure compliance with Federal and State regulations, City Council direction, and prudent cash management procedures.

12.1 Investment Portfolio Guidelines: Guidelines (Appendix No. 2) have been established for procedures within the City Treasurer's Office to assure internal investment controls and a segregation of responsibilities of investment functions.

12.2 Annual Audit: The City's portfolio is included in the annual review of the City's financial management performed by an outside audit firm.

### **13.0 PERFORMANCE STANDARDS**

The investment portfolio will be designed to obtain a market-average rate of return during budgetary and economic cycles, taking into account the city's investment risk constraints and cash flow needs. The market-average rate of return is defined as the average return on three-month Treasury bills. In addition, the city portfolio will be compared with LAIF and expected to maintain an annual yield within 0.50 basis points (1/2 of 1 percent) of LAIF's annual yield.

### **14.0 REPORTING**

14.1 Quarterly Report: The City Treasurer will provide quarterly detailed reports of pooled investments and invested bond proceeds held by our Trustees to the City Council and City Manager.

14.2 Annual Report: This Investment Policy may be presented annually to the City Council for approval. Any change in the policy shall be considered by the City Council for approval.

APPENDIX NO. 1  
GLOSSARY

AGENCIES: Federal agency securities.

BANKERS' ACCEPTANCE (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BROKER: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

CALIFORNIA ASSET MANAGEMENT PROGRAM (CAMP): A California Joint Powers Authority ("JPA") established in 1989 to provide California public agencies with professional investment services. The CAMP Pool is a permitted investment for all local agencies.

CALIFORNIA COOPERATIVE LIQUID ASSETS SECURITIES SYSTEM (CLASS): California CLASS is a Joint Powers Authority investment pool that provides public agencies the opportunity to invest funds on a cooperative basis in rated pools managed in accordance with state law with the primary objectives of offering participants maximum safety, daily and next-day liquidity, and optimized returns.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CDs 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.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

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

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DISCOUNT: The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

**DISCOUNT SECURITIES:** Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury bills.

**DIVERSIFICATION:** Dividing investment funds among a variety of securities offering independent returns.

**FEDERAL CREDIT AGENCIES:** Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&Ls, small business firms, students, farmers, farm cooperatives, and exporters.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A federal agency that insures bank deposits, currently up to \$250,000 per deposit.

**FEDERAL FUNDS RATE:** The rate of interest at which Federal funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

**FEDERAL HOME LOAN BANKS (FHLB):** The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA):** FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing & Urban Development, H.U.D. It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, 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. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae):** Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loans associations and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA or FMHM mortgages. The term pass-throughs is often used to describe Ginnie Maes.

**LIQUIDITY:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

**LOCAL AGENCY INVESTMENT FUND (LAIF):** Funds from local governmental units may be remitted to the California State Treasurer for deposit in this special fund for the purpose of investment.

**MARKET VALUE:** The price at which a security is trading and could presumably be purchased or sold.

**MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establishes 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 upon which the principal or stated value of an investment becomes due and payable.

**MONEY MARKET:** The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

**PORTFOLIO:** Collection of securities held by an investor.

**PRIMARY DEALER:** A group of government securities dealers that 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. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers, banks, and a few unregulated firms.

**RATE OF RETURN:** The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

**REPURCHASE AGREEMENT (RP OR REPO):** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Federal Reserve Bank is said to be doing RP, it is lending money that is, increasing bank reserves.

**SAFEKEEPING:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the banks' vaults for protection.

**SECONDARY MARKET:** A market made for the purchase and sale of outstanding issues following the initial distribution.

**SEC RULE 15C3-1:** See uniform net capital rule.

**SECURITIES & EXCHANGE COMMISSION:** Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**TREASURY BILLS:** A non-interest bearing security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

**TREASURY BONDS:** Long-term U.S. Treasury securities having initial maturities of more than ten years.

TREASURY NOTES: Intermediate term coupon bearing U.S. Treasury securities having initial maturities of from one to ten years.

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.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

APPENDIX NO. 2  
INVESTMENT PORTFOLIO GUIDELINES

A. INTRODUCTION. These guidelines are established to direct and control investment activities in such a manner to assure that the goals established in this Policy are attained.

B. GENERAL FACTORS. Several factors must be considered in preparation for effective portfolio management.

1. Cash Forecast. The cash flow of the City shall be updated daily with an analysis of cash receipts and expenditures. A close working relationship with city programs having a significant impact on cash flow is maintained to maximize the efficiency of the city's cash management system.

2. Pooled Cash. Whenever practical, the City's cash should be consolidated into one bank account and invested on a pooled concept basis. Interest earnings are allocated according to specific fund ledger balances. No city bank account may be opened without the knowledge and consent of the City Treasurer.

3. Authorized Institutions. A list of institutions, which meet the criteria of the Investment Policy and have been authorized by the City Treasurer to do business with the City, will be maintained and regularly updated. Investment transactions will be executed only with approved broker/dealers, banks, and savings and loans.

4. Preservation of Portfolio Value. Yield standards are in place in an effort to maintain earnings consistent with the market average rate of return.

C. STRATEGY: Strategy refers to the plan of action for managing financial resources in the most advantageous manner. The City Treasurer uses the following elements in developing strategy.

1. Economic Forecasts. Economic forecast information developed by economists and financial experts, obtained through bankers and brokers, is used to assist the City Treasurer with the formulation of an investment strategy for the city.

2. Investment Implementation. Investment transactions will be executed in conformance with anticipated cash flow requirements, economic conditions, and interest rate trends and must be consistent with the established Investment Policy.

3. Yield Enhancement. Investment techniques will be utilized which increase yield and maintain a fully invested position (i.e., investment in repurchase agreements for overnight and weekend surplus funds).

D. INVESTMENT PROCEDURES. The City Treasurer has developed internal investment procedures to provide for effective cash management. Segregation of responsibilities is maintained to assure an adequate system of internal control over the investment function.

1. Diversification. The fund should consist of a mix of various types of securities, issuers, and maturities.
  2. Investment Transactions. All investment transactions will be executed by the City Treasure. Daily administrative record keeping functions are delegated to the Revenue Supervisor or Designee. In the event of a prolonged absence or vacancy in the Treasurers position, the City Council may direct staff to engage the services of one or more external investment managers.
  3. Wire Transfers. Whenever possible, the city will use repetitive wire transfers to restrict the transfer of funds to preauthorized accounts only. All wire transfers require an initiator plus an approval by an authorized employee as well as verification by two bank employees.
  4. Safekeeping. Securities purchased from broker/dealers (on which maturity is greater than 30 days) shall be held in third party safekeeping with the Trust Department of Bank of New York acting as third party trustee. All purchases will be on a delivery-versus-payment basis. Evidences of accounts for certificates of deposit will be issued in the city's name and held in City Treasurer's vault.
- E. INVESTMENT CRITERIA. All investments will be made in compliance with Federal, State, and Local laws governing the investment of city funds, and in accordance with this Policy.
1. Maturity of Investment. Investments longer than one year may be made if consistent with the city's cash flow needs and related intent of holding until maturity. Securities may be sold prior to maturity for cash flow purposes or to otherwise enhance the portfolio. If the rating of any depository declines to an unacceptable level prior to the maturity of an investment of city funds, the investment will be sold at the earliest possible convenience. If the rating drops below the allowable level of any one of the rating services, the investment will be sold if no significant loss of principal is involved. Such sales will be determined by the City Treasurer.
  2. Certificate of Deposit Evaluation.
    - (a) Time Certificates of Deposit shall be evaluated in terms of FDIC coverage. For deposits in excess of the insured maximum of \$250,000, approved collateral shall be required at the percentage above market value as specified by California Government Code Section 53652 and/or 53651.
    - (b) Negotiable Certificates of Deposit shall be evaluated in terms of the credit worthiness of the issuer as these deposits are uninsured and uncollateralized promissory notes.
- F. PRIMARY GOALS. As set forth in the Investment Policy, the primary goals for the safety, liquidity, and yield, in that priority order.



1. Safety. The safety/risk associated with an investment refers to the potential loss of principal, accrued interest, or a combination of these. The City employs investment instruments which are considered safe. The primary duty of the City Treasurer is to protect the cash and investments placed in his trust on behalf of the residents of the community.
2. Liquidity. Liquidity refers to the ability to convert investment holdings to cash immediately with a minimal loss of principal or accrued interest. This quality of an investment is important should an unexpected need for funds occur.
3. Yield. Yield is the dollar earnings the investment provides. Yield becomes important only after the fundamental requirements of safety and liquidity have been met.

CITY OF REDLANDS

OFFICE OF THE CITY TREASURER

BANK/SAVINGS & LOAN QUESTIONNAIRE AND CERTIFICATION

1. Name of Firm \_\_\_\_\_
2. Address \_\_\_\_\_
3. Telephone No. \_\_\_\_\_  
(Local) (National Headquarters)
4. Primary Representative: \_\_\_\_\_ Manager: \_\_\_\_\_  
Name: \_\_\_\_\_ Name \_\_\_\_\_  
Title \_\_\_\_\_ Title \_\_\_\_\_  
Telephone No. \_\_\_\_\_ Telephone No. \_\_\_\_\_
5. What is the total of assets of the Bank/Savings & Loan? \_\_\_\_\_
6. What are the current ratios? \_\_\_\_\_ Prior Year? \_\_\_\_\_  
Net Worth \_\_\_\_\_  
Tangible Capital \_\_\_\_\_  
Core-based Capital \_\_\_\_\_  
Risk-based Capital \_\_\_\_\_
7. Has there been a year during the past three years in which the Bank/Savings & Loan did not make a profit?
8. What is the education level of the Primary Contact(s)? \_\_\_\_\_
9. How many years of related experience does the Primary Contact(s) have? \_\_\_\_\_
10. Where is the collateral for Time Deposits of the Bank/Savings & Loan held? \_\_\_\_\_  
\_\_\_\_\_
11. Has there been a period during the past five years when Time Deposits of the Bank/Savings & Loan have not been fully collateralized? If Yes, explain.  
\_\_\_\_\_

12. Describe the precautions taken by your Bank/Savings & Loan to protect the interest of the public when dealing with government agencies as depositors or investors.

---

---

13. What other banking services would you be interested in providing the City of Redlands?

---

---

14. What transaction documents and reports would we receive? \_\_\_\_\_

---

---

15. What information would you provide to our Investment Officer? \_\_\_\_\_

---

---

16. Please provide your entity's most recent certified financial statement.

17. Please provide your Contract of Deposit of Moneys pre-signed and sealed by your institution as well as any signature cards that you may require.

18. Please provide your wiring instructions. \_\_\_\_\_

---

---

-- CERTIFICATION --

I hereby certify that I have personally read the City of Redlands' Investment Policy and the California Government Codes pertaining to the investments of the City of Redlands, and have implemented reasonable procedures and a system of controls designed to preclude imprudent investment activities arising out of transactions conducted between our firm and the City of Redlands. All sales personnel will be routinely informed of City of Redlands' investment objectives, strategies and risk constraints whenever we are so advised. We pledge to exercise due diligence in informing the City Treasurer of all foreseeable risks associated with financial transactions conducted with our firm. I attest to the accuracy of our responses to your questionnaire.

NOTE: Completion of Questionnaire is only part of the City of Redlands' Certification process and DOES NOT guarantee that the applicant will be approved to do business with the City.

SIGNED \_\_\_\_\_

DATE \_\_\_\_\_

(countersigned by company president or person in charge of government security operations)

---

**CITY OF REDLANDS**

**OFFICE OF THE CITY TREASURER**

**BROKER/DEALER QUESTIONNAIRE AND CERTIFICATION**

1. Name of Firm \_\_\_\_\_

2. Address \_\_\_\_\_

3. Telephone No. \_\_\_\_\_  
(Local) (National Headquarters)

4. Primary Representative: \_\_\_\_\_ Manager: \_\_\_\_\_  
Name \_\_\_\_\_ Name \_\_\_\_\_  
Title \_\_\_\_\_ Title \_\_\_\_\_  
Telephone No. \_\_\_\_\_ Telephone No. \_\_\_\_\_

5. Are you a recognized primary dealer in Government Securities?  
 YES  NO

6. If yes, how many years has your firm been a primary dealer? \_\_\_\_\_

7. What was your firm's total volume in U.S. Government and agency securities trading last year?

Firm-wide \$ \_\_\_\_\_

Your office \$ \_\_\_\_\_

Number of transactions from your office \_\_\_\_\_

8. Which of the following instruments are offered regularly by your trading desk?

T-Bills  BA's (Domestic)

T-Notes/Bonds  BA's (Foreign)

Agencies (specify) \_\_\_\_\_  
\_\_\_\_\_  Commercial Paper  
\_\_\_\_\_  C D's

Medium Term Notes

[        ] Repurchase Agreements      [        ] Mutual Funds (eligible for public investment)  
\_\_\_\_\_

9. Identify all personnel who will be trading with or quoting securities to the City Treasurer.

<u>Name</u>	<u>Title</u>	<u># of Years in Institutional Sales</u>	<u># of Years with Firm</u>	<u>Telephone</u>
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

10. Please identify your most directly comparable City Local Agency clients in our geographical area.

<u>Entity</u>	<u>Contact Person</u>	<u>Telephone</u>	<u>Client since</u>
_____	_____	_____	_____
_____	_____	_____	_____

11. Is there anything in your background in the government security business that makes you stand out above the rest? Why should the City of Redlands deal with you?

\_\_\_\_\_  
\_\_\_\_\_

12. Have any of your public sector clients ever sustained a loss on a securities transaction arising from a misunderstanding or misrepresentation of the risk characteristics of a particular instrument? If so, please explain. \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

13. Has any public-sector client ever claimed in writing that your firm was responsible for investment losses? Explain. \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

14. Has your firm consistently complied with the Federal Reserve Bank's capital adequacy guidelines? Include certified documentation of your current capital adequacy as measured by Federal Reserve Standards. \_\_\_\_\_

15. Please provide certified financial statements and other statements regarding your firm's capitalization.

16. Please provide samples of research reports that your firm regularly supplies to public sector clients.

17. Are you a Broker instead of a Dealer (i.e., you DO NOT own positions of securities)?

[        ] Yes                    [        ] No

18. What reports, transactions, confirmations and paper trail would the city receive? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

19. What training information would you provide to our employees and investment officers?  
\_\_\_\_\_  
\_\_\_\_\_

20. How many and what percentage of your transactions failed last month? \_\_\_\_\_  
Last year? \_\_\_\_\_

21. What portfolio information do you require from clients? \_\_\_\_\_  
\_\_\_\_\_

**-- CERTIFICATION --**

I hereby certify that I have personally read the City of Redlands' Investment Policy and the California Government Codes pertaining to the investments of the City of Redlands, and have implemented reasonable procedures and a system of controls designed to preclude imprudent investment activities arising out of transactions conducted between our firm and the City of Redlands. All sales personnel will be routinely informed of City of Redlands' investment objectives, strategies and risk constraints whenever we are so advised. We pledge to exercise due diligence in informing the City Treasurer of all foreseeable risks associated with financial transactions conducted with our firm. I attest to the accuracy of our responses to your questionnaire.

NOTE: Completion of Questionnaire is only part of the City of Redlands' Certification process and DOES NOT guarantee that the applicant will be approved to do business with the City.

SIGNED \_\_\_\_\_

DATE \_\_\_\_\_

(countersigned by company president or person in charge of government security operations)

\_\_\_\_\_