

Exhibit A

CITY OF ALBANY  
INVESTMENT POLICY  
As adopted by Resolution 08-41

**INTRODUCTION**

**GOALS**

The investment policy of the City of Albany is based upon state law, city charter and ordinances and the prudent money management rule. The primary goals of this policy are:

1. To ensure compliance of all State and Local laws governing the investment of monies in the custody of the City Treasurer.
2. To protect the principal monies entrusted to the City Treasurer.
3. To meet the daily cash flow demands of the City.
4. To generate the maximum amount of investment income within the parameters of prudent risk management.

The monies entrusted to the City Treasurer constitute the "Investment Portfolio" referred to in this document.

**IMPLEMENTATION**

**DELEGATION OF AUTHORITY**

Pursuant to the City Charter, management responsibility for investments belongs to the City Treasurer. The Treasurer shall establish procedures for the operation of an investment program consistent with this investment policy and shall perform investment transactions. These procedures will include reference to safekeeping, wire transfer agreements, banking service contracts and collateral/depository agreements. The Treasurer shall be responsible for all transactions undertaken.

However, the Treasurer shall request review and/or approval of the City Administrator or Finance & Administrative Services Director for investments outside of the Local Agency Investment Fund (LAIF) unless otherwise specified.

The Treasurer shall appoint a Deputy City Treasurer who shall perform the Treasurer's duties in the absence of the Treasurer.

## **SCOPE**

The Treasurer is responsible for investing the unexpended cash in the City Treasury. This investment policy applies to all the investment activities of the City of Albany, except for the Public Employees Retirement System (PERS), Deferred Compensation Funds, individual Bond proceeds, and the Police and Fire Relief or Pension Fund of the Police and Fire Departments of the City of Albany, which are administered separately. The financial assets of all funds, with these four noted exceptions, shall be administered in accordance with the provisions of this policy.

## **OBJECTIVES**

Objectives have been set in order to achieve the goals of this investment policy. The primary objectives, in priority order, of the City of Albany's investment policy are:

### **A. Safety of Principal**

Safety of principal is the foremost objective of the City of Albany. With each investment transaction the Treasurer shall seek to ensure that capital losses are avoided, whether these losses are from securities default, broker-dealer default, or erosion of market value. The City shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.

1. **Credit risk**, defined as the risk of loss due to the failure of the issuer of a security shall be mitigated by investing in only very safe securities (see list of authorized investments), and by diversifying the investment portfolio so that the failure of any one issuer does not unduly harm the City's cash flow.
2. **Market risk**, defined as the risk of market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by structuring the portfolio so that securities mature at the same time that major cash outflows occur, thus eliminating the need to sell securities prior to their maturity. It is explicitly recognized herein, however, that in a diversified portfolio, occasional measured losses are inevitable and will be considered within the context of overall investment return.

Further guidelines for safety of principal shall include:

1. Limiting the portfolio's exposure to each issue and each issuer of debt.
2. Determining the minimum credit requirements for firms that hold City monies.

### **B. Liquidity**

The City of Albany's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which will be reasonably anticipated. The Portfolio shall maintain a position of at least 50% in "readily marketable" securities, i.e., those securities that are actively traded in the secondary market.

### **C. Return on Investment**

Return on investments shall be a market average rate of return governed by the objectives of safety and liquidity in accord with prudent investment principles.

### **PRUDENCE**

Generally, investments shall be made in the context of the "prudent investor" rule, which states:

"...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."

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.

### **ETHICS AND CONFLICTS OF INTEREST - see Attachment A**

The Investment Officers, i.e., the City Treasurer and Deputy City Treasurer, shall be governed by the "Code of Ethics" and the "Code of Professional Conduct" of the California Municipal Treasurers Association. The Investment Officers 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.

Investment Officers shall disclose any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial positions that could be related to the performance of the City of Albany's portfolio. Investment Officers shall subordinate their personal investment transactions to those of the City of Albany, particularly with regard to the timing of purchases and sales.

Investment Officers shall avoid any transaction that might impair public confidence in the City's ability to govern effectively. The Investment Officers shall comply with all relevant state laws governing financial conflicts of interest.

At all times, the Investment Officers shall act as custodians of the public trust.

## **PROCEDURES**

### **MATURITIES**

Maturities shall be selected to anticipate cash needs, thereby eliminating the possibility of the need for forced investment liquidation. Cash flow estimates shall be prepared in a prudent manner.

To insure that funds are always available when needed, the City shall maintain a position of investing no greater than 25% of the portfolio in maturities greater than one year. Further, investments which exceed five years in maturity shall require authorization by the City Council prior to purchase. Further, each individual security shall be limited to one million dollars.

### **INTERNAL CONTROL**

The Treasurer shall establish an annual independent review by an external auditor as required by Governmental Accounting Standards Board Statement #5. The purpose of this review shall be to consider means for improved future performance, and to verify that investments have been made in accordance with the City's policies and procedures.

### **SAFEKEEPING OF SECURITIES**

To protect against potential losses by collapse of individual securities dealers, all securities owned by the City (including collateral on repurchase agreements), shall be held in the City's name in safekeeping by a third party bank trust department. Said trust department shall act as agent for the City of Albany pursuant to a custody agreement between the bank and the City. All securities shall be received and delivered using standard delivery-versus-payment procedures. The Custodian shall provide safekeeping receipts of all securities held.

### **QUALIFIED DEALERS**

The City shall transact business only with banks, savings and loans and investment securities dealers. The dealers must be primary dealers regularly reporting to the Federal Reserve Bank. The Treasurer shall investigate dealers wishing to do business with the City and determine if they are adequately capitalized, make markets in securities appropriate to the City's needs, and are recommended by managers of portfolios similar to the City's.

All financial institutions and securities dealers who desire to engage in investment transactions with the City of Albany shall submit a written certification that the supervising officer has reviewed the City's investment policy and agrees to disclose potential conflicts or risks to public funds that might arise out of business transactions between the firm/depository and the City of Albany. Employers of any financial institution offering securities or investments to the City of Albany shall be trained in the precautions appropriate to public sector investments and shall be required to familiarize

themselves with the City's investment policy.

When two or more investment opportunities offer essentially the same maturity, yield, quality and liquidity, the City of Albany shall seek to promote local economic development by giving priority to the financial institutions in Albany, then Alameda County, and then California.

The City shall at least annually send a copy of the current investment policy to all dealers approved to do business with the City. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the City's investment policies, and intends to show the City only appropriate investments.

## **REPORTING**

As per state law, the City Treasurer shall render an investment report no less than quarterly to the chief executive officer and the legislative body of the City.

The report shall identify the type of investment, institution, settlement and maturity dates, purchase price and coupon rate. Current book value, current market value and yield to maturity rate shall be given for all securities with a maturity date exceeding twelve months.

## **INVESTMENTS AND STRATEGIES**

### **AUTHORIZED INVESTMENTS**

The City is governed by California Government Code, Section 53600 et seq. Within the context of these limitations, the following investments are authorized as further limited herein:

**United States Treasury Bills, Bonds and Notes**, or those instruments for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no limitation as to the percentage of the portfolio which can be invested in this category.

**Obligations issued by the United States Government Agencies** such as the Government National Mortgage Association (GNMA), the Federal Farm Credit Bank System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal National Mortgage Association (FNMA) and the Student Loan Marketing Association (SLMA). Although there is no percentage limitation of the dollar amount that can be invested in these issues, the "prudent investor" rule shall apply for any single agency name.

**Banker's Acceptances**-a bill of exchange or time drafts drawn on and accepted by a commercial bank. Banker's acceptances purchased may not exceed 180 days to maturity or 40% of the market value of the portfolio. No more than 10% of the market value of the

portfolio may be invested in banker's acceptances issued by one bank.

**Commercial paper** ranked P1 by Moody's Investor Services and A1 by Standard and Poor's, and issued by a domestic corporation having assets in excess of \$500 million and having an A or better rating on its long term debentures as provided by Moody's or Standard and Poor's. Purchases of eligible commercial paper may not exceed 270 days to maturity. Purchases of eligible commercial paper may not exceed 15% of the market value of the portfolio. No more than 10% of the market value of the portfolio may be invested in commercial paper issued by one corporation.

**Medium Term Notes (MTNs).** The City may invest in MTNs issued by corporations operating within the United States. MTNs eligible for purchase shall be rated A or better by Standard and Poor's or Moody's rating services. MTNs with an A rating shall be limited to 12 months maximum maturity; AA rated MTNs shall be limited to 12 months. The aggregate total of all purchased MTNs may not exceed 15% of the cost value of the portfolio. No more than 5% of the cost value of the portfolio may be invested in notes issued by any one corporation. Commercial paper holding shall be considered when calculating the maximum percentage in any issuer name.

**Repurchase Agreements (repos).** The City may invest in repurchase agreements not exceeding seven (7) days maturity with banks and dealers with which the City has entered into a master repurchase contract which specifies terms and conditions of repurchase agreements.

**Local Agency Investment FUND (LAIF).** The City may invest in LAIF; a pool established by the State Treasurer for the benefit of local agencies up to the maximum amount permitted by LAIF.

**Investment Trust of California (CalTRUST).** The City may invest in CalTRUST, a pool created by local public agencies to provide a method for local public agencies to pool their assets for investment purposes, up to a maximum of 25% of total funds reported in the most recent quarterly *Cash and Investments Treasury Report*, presented to the City Council by the City Treasurer.

**Time Deposits (CDs).** The City may invest in nonnegotiable time certificates of deposit issued by a national or state chartered bank or federal savings and loan association rated C or better by Sheshunoff Information Services Inc. CDs are collateralized. If the collateral is government securities, 110% of the market value to the face amount of the deposit is required. Promissory notes secured by first mortgages and first trust deeds used as collateral require 150% of the market value to the face amount of the deposit. The City may waive the first \$100,000 of collateral security for such deposits if the institution is insured pursuant to federal law. In order to secure such deposits, an institution shall maintain in the collateral pool securities having a market value of at least 10% in excess of the total amount deposited.

The maximum terms for time deposits shall be one year. Since time deposits are not liquid, no more than 15% of the portfolio may be invested in this category. The issuer firm should have been in existence for at least five years and be based in California. In general, the issuer must have a minimum 3% net worth to assets ratio, have \$90 million in assets and its operation must have been profitable during its last reporting period.

**Money Market Accounts.** The City may invest in shares of beneficial interest issued by diversified management companies and federally or state chartered banks that invest in the securities and obligations as authorized by Section 5360(k) of the California Government Code.

## **INELIGIBLE INVESTMENTS**

Investments not described herein, including, but not limited to common stocks, corporate bonds, reverse repurchase agreements, inverse floaters and "derivatives," shall be considered unauthorized and ineligible investments for the City of Albany. Leveraging shall not be used.

## **TRADING**

The City shall not make investments for the purpose of trading or speculation as the dominant criterion, such as anticipating an appreciation of capital value through changes in market rates.

## **SWAPPING OF SECURITIES**

A swap is the movement from one security to another and may be done for a variety of reasons, such as to increase yield, lengthen or shorten maturities, to take a profit, or to increase investment quality.

Losses or gains on security swaps must be recorded as a completed sale and purchase. The City's portfolio is intended to be held to maturity; swaps are allowed only to enhance the portfolio, but not as a regular investment tool.

## **PORTFOLIO ADJUSTMENTS**

Should an investment percentage of portfolio limitation be exceeded due to an incident such as fluctuation in portfolio size, the affected securities may be held to maturity to avoid losses. When no loss is indicated, the treasurer shall consider restructuring the portfolio basing the decision in part on the expected length of time the portfolio will be imbalanced.

## **POLICY REVIEW**

This investment policy shall be reviewed by the City Council at a public meeting annually to ensure its consistency with the overall objectives of preservation of principal, liquidity, rate of return, and its relevance to current law and financial and economic trends. Amendments and modifications to the policy shall be approved by the City Council prior to implementation.

## **Attachment A**

### **CODE OF ETHICS CALIFORNIA MUNICIPAL TREASURERS ASSOCIATION (As Amended by the Board of Directors April 2001)**

Ethics is defined by Webster as the rules or standards governing the conduct of the members of a profession. Ethical Conduct must be based upon justice and fair play in the fullest sense.

The purpose of this code is to assemble a body of principles to guide members of the California Municipal Treasurers Association as they confront ethical problems when carrying out their duties and responsibilities.

According to Henry J. Wirtenberger, S.J. author of "Morality and Business", two virtues stand out in evaluating the quality of human conduct. They are justice and prudence.

- (1) St. Thomas Aquinas defined justice as "a cardinal virtue whereby one has the constant and perpetual will to give to others whatever is due them."
- (2) Prudence is the ability by which a person learns to differentiate between what is good and what is evil, i.e., capable of exercising sound judgment in practical matters. According to Aristotle's brief definition, "Prudence is a reasonable way of doing things."

Using the foregoing principle of justice and prudence as guides, the following Code of Ethics shall govern the professional conduct of active members of the California Municipal Treasurers Association.

- (1) To protect, preserve and maintain intact cash, investments and other assets placed in trust with the Treasurer on behalf of the residents of the community.
- (2) To promote principles of good government. To be dedicated to the concepts of effective and efficient local government service being provided by elected and appointed Treasurers.
- (3) To maintain personal conduct in such manner as will enhance the stature of the profession and its ability to serve the public.
- (4) To observe the profession's technical standards and continually strive to improve the Treasurers' level of competence.



- (5) To be dedicated to the highest ideals of honor, integrity, and objectivity in all public and professional relationships, and to function within existing legal guidelines.
- (6) To promote cooperation, good relations, bonds of friendship and mutual understanding among the membership.
- (7) To encourage the development of clear lines of communication between residents and elected officials, administrative officers and employees.
- (8) To resist encroachments upon areas of responsibility, as the Treasurer must be free to carry out official duties without interference.
- (9) To seek no personal advantage or gain as a result of the position occupied, or due to the commission of a questionable act.

By accepting membership, each member agrees to be bound and governed by the Code of Ethics and the Code of Professional Conduct as adopted by the CMTA.

**CALIFORNIA MUNICIPAL  
TREASURERS ASSOCIATION  
CODE OF  
PROFESSIONAL CONDUCT  
(As Amended by the Board April 2001)**

**I. THE ASSOCIATION**

The California Municipal Treasurers Association (CMTA) is a professional association of public treasurers organized in 1959.

**II. PURPOSE**

The purpose of the Association shall be to promote professional standards for public Treasurers and a fraternal fellowship among the members.

**III. GENERAL POLICY STATEMENT**

The code was prepared as a policy statement regarding how a member of CMTA approaches matters involving professional conduct. It is a fundamental principle that professional conduct for a public treasurer shall exist at a level well above the minimum required by law.

**IV. GENERAL RESPONSIBILITIES**

The Treasurer performs at least the following basic functions:

- (1) Acts as trustee and custodian of all jurisdiction monies.
  - (a) The Treasurer's primary responsibility is to maintain the safety of monies placed in his/her public trust.
  - (b) In order to limit exposure to risk, investment transactions should be executed with bankers and brokers with adequate capital resources, and purchases should be limited to a small percentage of the firm's capital and surplus.
- (2) Disburse public monies in accordance with prescribed statutes in a timely manner.
  - (a) The receipt of revenues and maturities of investments should be scheduled so that adequate cash will be available to meet disbursements.
  - (b) An adequate percentage of the portfolio should be maintained in liquid short-term securities to be converted to cash if necessary.

- (c) The weighted average life of the general governmental portfolio should be maintained within limits dictated by cash flow needs of the jurisdiction.
  - (d) Yield becomes a consideration only after the basic requirements of safety and liquidity have been met.
- (3) Invests temporarily idle monies in accordance with State or local statutes, regulations and administrative directives. (Section 53601 et seq. of the Government Code.)
- (a) Purchase of securities should be made on the basis of competitive bids when practical.
  - (b) Security purchases and holdings are to be maintained within statutory limits imposed by the Government Code or local ordinance.

## V. REPORTS

The Treasurer shall file reports as required by various sections of the Government Code.

## VI. HEARINGS RELATED TO ALLEGATIONS OF PROFESSIONAL MISCONDUCT

A violation of CMTA's code of professional conduct is grounds for suspension and/or termination of CMTA membership. Upon receiving allegations that a CMTA member has violated provisions of CMTA's code of professional conduct from another CMTA member, the President and board shall do the following:

- (1) **Board Notification by President.** The President shall notify board members that an allegation has been made and shall forward all background information provided. The Board will then determine by conference call or fax vote if a Board hearing should be scheduled.
- (2) **Discussion at Board Meeting.** If the Board determines a vote is required, the Board shall schedule the matter for discussion and action at a regularly scheduled CMTA Board meeting.
- (3) **Notice and Opportunity to Be Heard.** The President shall notify the delegate/member whose conduct is at issue of the fact and nature of the allegations, as well as the delegate/member's opportunity to provide the Board additional information relating to the allegations. Such notice shall occur at least four weeks prior to the Board meeting at which the allegations will be discussed. The member may provide the Board information orally at the board meeting, or in writing at least four days prior to the Board meeting, or both.

(4) **Board Deliberation and Discussion.** After considering all of the information received, the Board may, by majority vote, do one of the following:

(a) Find that no violation occurred and continue the delegate/representative's membership in good standing.

(b) Depending on the severity of the violation(s) the Board find occurred:

i. Suspend delegate/representative's membership for a specified period, or

ii. Terminate the delegate/representative's membership.

Suspension and terminations shall be effective immediately.

(5) **Reinstatement.** Any delegate/representative who has been terminated may, for good cause shown, petition for reinstatement.

(6) **Notice to Agency.** If the Board determines that suspension or termination is appropriate, it may provide written notice of its decision and the basis therefore to the delegate/representative's employer.