

INVESTMENT POLICY

1.0 Policy:

It is the Policy of the City of Merced and all entities of the City of Merced to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands and conforming to all state and local statutes governing the investment of public funds.

2.0 Scope:

This investment policy applies to the investment activities of the City of Merced and all entities of the City of Merced. These funds are accounted for in the Comprehensive Annual Financial Reports and include:

2.1 Funds

- 2.1.1 General Fund
- 2.1.2 Special Revenue Funds
- 2.1.3 Debt Service Funds
- 2.1.4 Capital Project Funds
- 2.1.5 Enterprise Funds
- 2.1.6 Internal Service Funds
- 2.1.7 Trust and Agency Funds

This investment policy does not apply to any retirement funds or deferred compensation funds administered by other agencies.

3.0 Prudence:

Investment officials shall use judgment and care in accordance with established procedures and exercise due diligence in investing these funds. The standard of prudence to be used by investment officials shall be the "prudent person" and shall be applied in the context of the overall portfolio.

4.0 Objectives:


4.1 Safety: Safety of principal is the foremost objective of the investment program. Funds will be invested in a manner that will preserve and protect capital in the overall portfolio.

4.2 Liquidity: A portion of the investment portfolio will remain sufficiently liquid to meet all operating requirements which might be reasonably anticipated, thereby obviating the need for forced liquidation. Liquidity requirements shall be ensured by maintaining sufficient investment amounts in, Local Investment Agency Fund, Savings, or any maturing investment.

4.3 Return on Investments: The investment portfolio should at a minimum regularly exceed the average return on three-month U.S. Treasury bills, or the average rate on Fed funds, whichever is higher. These indices comprise a minimum standard for a rate of return that is considered a benchmark for riskless investment transactions. Returns above this threshold will be sought when consistent with risk limitations identified herein and prudent investment principles.

With the use of daily cash balance reports and cash flow projections available funds will be invested as near as possible to 100%.

5.0 Delegation of Authority:

 The finance officer is designated as investment officer and is responsible for investment decisions and activities, under the direction of the city manager. The finance officer shall be responsible for developing and maintaining administrative procedures for the operation of the program which are consistent with these policies.

6.0 Ethics and Conflicts of Interests:

Any employee 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 officials shall disclose to the city manager any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of this jurisdiction's portfolio. Employees and officers shall subordinate their personal investment transactions to those of this jurisdiction, particularly with regard to the timing of purchases and sales.

7.0 Authorized Financial Dealers and Institutions:

The Finance Officer will maintain a list of financial institutions authorized to provide investment services. All financial institutions and broker/dealers who desire to become qualified bidders must be affiliated as primary dealers with the New York Federal Reserve Bank or broker/dealers who comply with the Fed's capital adequacy guideline. They must also certify that they have read and understood the City of Merced investment policies.

Banks shall be selected through the banking services procurement process. A formal request for proposal of depository services shall be issued no less than every five years. In selecting banks, the finance officer shall review the bank's financial history and creditworthiness.

8.0 Authorized & Suitable Investments:

Funds may be used to purchase the following investment instruments:

- A. U.S. Treasury and U.S. Agency Issues
- B. Non-Negotiable Certificates of Deposit
- C. Local Agency Investment Fund
- D. Government Bonds and Notes
- E. Passbook Savings
- F. Bankers Acceptance
- G. Commercial Paper
- H. Medium-term Notes
- I. Repurchase Agreements
- J. Mutual Funds

All non-negotiable certificates of deposit will be made with a state or national bank, state or federal savings bank or savings and loan associations, or a federally insured industrial loan company (Thrift & Loans). The deposits to any one institution may not exceed the total paid up capital and surplus in any depository.

As far as is practicable two quotes will always be obtained before purchasing or selling securities.

To ensure receipt of securities, all trades will be executed on a delivery versus "payment" or "book entry" basis.

Bankers Acceptance will only be purchased from prime money-center banks.

All U.S. Treasury and Agency obligations will be purchased at prices that are at or below par.

Commercial paper to be of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided for by Moody's Investors Service, Inc., or Standard and Poor's Corporation. Eligible paper is further limited to issuing corporations that are organized and operating within the United States and having total assets in excess of five hundred million dollars (\$500,000,000) and have an "A" or higher rating for issuer's debt, other than commercial paper, if any, as provided for by Moody Investors Service Inc., or Standard and Poor's Corporation. Purchases of eligible commercial paper may not exceed 180 days maturity nor represent more than 10% of the outstanding paper of an issuing corporation. Purchases of commercial paper may not exceed 15% of the portfolio.

Medium-term notes to be of maximum of five years maturity issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment shall be rated in a rating category of "A" or its equivalent or better by a nationally recognized rating service. Purchase of medium-term notes may not exceed 30% of the portfolio.

Investments in repurchase agreements is limited to purchase of U.S. Treasury and U.S. Agency Issues and Government Bonds and Notes (collateral) pursuant to an agreement by which the seller will repurchase the securities on or before a specified date and for a specified amount. The term of the repurchase agreement shall be for one year or less.

Investments in mutual funds will be restricted to those funds that invest in securities and obligations otherwise eligible for local agency investment. Purchase of mutual fund shares may not exceed 15% of the portfolio.

Marketable securities will be traded prior to maturity if capital appreciation has occurred and/or yield can be increased with a minimum extension of maturity or the maturity can be shortened with a minimal loss in yield.

Losses are acceptable on a sale before maturity only if the reinvested proceeds will earn an income flow that would have been generated by the old investment considering any capital loss or forgone interest on the original investment. Any such sales will only be made upon the recommendation of the finance officer and approved by the city manager.

9.0 Collateralization:

Collateralization will be required on two types of investments: non-negotiable certificates of deposit and repurchase agreements.

Non-negotiable certificates of deposit must be fully insured by the FDIC; If over \$250,000 the difference must be collateralized with securities having a market value of at least 110% of the value of the public funds or 150% if the depository uses mortgaged back securities.

Collateral for repurchase agreement will have a market value of at least 102% of the specified amount in the agreement. Collateral will always be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership must be supplied to the City and retained.

10.0 Safekeeping and Custody:

Where practicable, to protect against potential fraud and embezzlement, the City of Merced's ownership of all investments and collateral will be maintained through third-party custodial safekeeping. Bearer instruments shall be held only through third party institutions and all investment officials will be bonded.

11.0 Diversification:

Assets invested shall be sufficiently diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issue, or a specific class of securities. Investment maturities shall be scheduled to coincide with projected cash flow needs.

12.0 Maximum Maturities:

To the extent possible, the City of Merced will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five years from the date of purchase.

13.0 Internal Controls:

The finance officer shall establish a system of internal controls, which shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by employees and officers.

14.0 Performance Standards:

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

15.0 Reporting:

The finance officer shall submit a monthly investment report to the city council and city manager. This report will show the investments in the portfolio, specific information concerning these investments and any narrative necessary for clarification.

16.0 Investment Policy Adoption:

The investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed annually by the Finance Officer and any modifications made thereto must be approved by the City Council.

Sec. 604. - Finance officer—Powers and duties.

The Finance Officer shall have power and be required to:

- A. Have charge of the administration of the financial affairs of the City under the direction of the City Manager;
- B. Compile the budget expense and revenue estimates for the City Manager;
- C. Supervise and be responsible for the disbursement of all moneys and have control over all expenditures to insure that budget appropriations are not exceeded; audit all purchase orders before issuance; audit and approve before payment, all bills, invoices, payrolls, demands or charges against the City government and, with the advice of the City Attorney, when necessary, determine the regularity, legality and correctness of such claims, demands or charges;
- D. Maintain a general accounting system for the City government and each of its offices, departments and agencies;
- E. Keep separate accounts for the items of appropriation contained in the City budget, each of which accounts shall show the amount of the appropriation, the amounts paid therefrom, the unpaid obligations against it and the unencumbered balance; require reports of the receipts and disbursements from each receiving and expending agency of the City government to be made daily or at such intervals as he/she may deem expedient;
- F. Submit to the City Council and the City Manager a monthly statement of all receipts and disbursements in sufficient detail to show the exact financial condition of the City; and as of the end of each fiscal year, submit a complete financial statement and report;
- G. Collect all taxes, assessments, license fees and other revenues of the City, or for whose collection the City is responsible, and receive all money receivable by the City from the county, state or federal government, or from any court, or from any office, department or agency of the City;
- H. Have custody of all public funds belonging to or under the control of the City or any office, department, or agency of the City government, and deposit all funds coming into his/her hands in such depository as may be designated by Resolution of the City Council, or, if no such Resolution be adopted, by the City Manager, and in compliance with all of the provisions of the State Constitution and laws of the State, governing the handling, depositing and securing of public funds;
- I. Supervise the keeping of current inventories of all property of the City by all City departments, offices and agencies;
- J. Establish a centralized purchasing system for all City offices, departments and agencies; and,
- K. Prepare rules and regulations governing the contracting for, purchasing, storing, distribution, or disposal of all supplies, materials and equipment required by any office, department or agency of the City government and recommend them to the City Manager and the City Council for adoption by Ordinance; and prepare administrative policies and procedures implementing this Section and recommend them for review and approval by the City Manager.

(Amended November 6, 2007: Amended May 2, 1977).

Exhibit 1 – Table of Contracts10/05/2015 City Council Meeting

Department/Division	Vendor	Purpose/Location	Amount
0803 – Engineering	Kleinfelder, Inc.	Downtown Parking Lot – Compaction testing for parking lots 5, 9, and 10 (Project No. 114043).	\$ 1,245.00
1001 – Police	Duncan Parking Technologies, Inc.	Maintenance Agreement for hand-held electronic ticket books (Annual Renewal: 7/1/15 – 6/30/16).	\$ 1,830.00
0701 – Finance	Bank of the West	Custody Agreement – Safekeeping services to hold financial assets credited to one or more securities accounts.	\$ 2,000.00
0803 – Engineering	Technicon Engineering Services, Inc. Self Insured Services Company	2015 Water Main Installation along Mission Ave. and Tyler Rd. (75 compaction tests for c. 7,725 LF of backfill).	\$ 2,195.00
0409 – Insurance	(DBA: Benefit Coordinators Corp.)	Affordable Care Act (ACA) Works Service Agreement – Web-based service for ACA recordkeeping and reporting.	\$ 3,532.50

Copies of all of the contracts listed above are available in the City Clerk's Office.