



CITY OF BURLINGAME, CA

STATEMENT OF INVESTMENT POLICY

June 202¹⁰

PURPOSE

This statement contains guidelines for the prudent investment of the City's temporarily idle cash in accordance with Government Code sections 53600, et. seq. The ultimate goal of the City's Investment Policy is to protect the City's pooled cash while producing a reasonable rate of return on investments.

SCOPE

The Investment Policy applies to all funds and investment activities of the City except the investment of bond proceeds, which are governed by the appropriate bond documents, and any pension or other post-employment benefit funds held in a trust.

PRUDENCE

The standard of prudence to be used by investment officials will be the "prudent investor" standard, 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 needs of the agency, that a prudent person acting 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 agency."

OBJECTIVES

The primary objectives, in priority order, of the investment activities of the City are:

1. SAFETY – Safety of principal is the foremost objective of the City of Burlingame.
2. LIQUIDITY – The City's portfolio will remain sufficiently liquid to enable the City to meet its cash flow requirements. It is important that the portfolio contain investments which provide the ability of being easily sold at any time with minimal risk of loss of principal or interest.

3. RETURN – The City’s portfolio will be designed to attain a market rate of return through economic cycles consistent with the constraints imposed by its safety objective and cash flow considerations.

DELEGATION OF INVESTMENT AUTHORITY

Pursuant to Burlingame Municipal Code Section 3.13.040 and Government Code Section 53607, the Finance Director/Treasurer is authorized to invest and reinvest money of the City, to sell or exchange securities so purchased, and to deposit such securities for safekeeping in accordance with and subject to this investment policy.

The City may engage the support services of outside investment advisors in regard to its investment program, so long as these services are likely to produce a net financial advantage or necessary financial protection of the City’s financial resources.

INVESTMENT PROCEDURES

The Finance Director/Treasurer will establish investment procedures for the operation of the City’s investment program.

ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process will refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Finance Director/Treasurer will maintain a list of financial dealers and institutions qualified and authorized to transact business with the City.

The purchase by the City of any investment other than those purchased directly from the issuer, will be purchased either from an institution licensed by the State as a broker-dealer, as defined in Section 25004 of the Corporations Code, which is a member of the Financial Industry Regulatory Authority (FINRA), or a member of a federally regulated securities exchange, a national or state chartered bank, a federal or state association (as defined by Section 5102 of the Financial Code), or a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank.

The Finance Director/Treasurer will investigate all institutions that wish to do business with the City to determine if they are adequately capitalized, make markets in securities appropriate for the City’s needs, and agree to abide by the conditions set forth in the City of Burlingame’s Investment Policy and any other guidelines that may be provided. This will be done annually by having the financial institutions:

1. Provide written notification that they have read, and will abide by, the City's Investment Policy.
2. Submit their most recent audited Financial Statement within 120 days of the institution's fiscal year end.

If the City has an investment advisor, the investment advisor may use its own list of authorized broker-dealers to conduct transactions on behalf of the City.

Purchase and sale of securities will be made on the basis of competitive bids and offers with a minimum of three quotes being obtained, when practicable.

ACCEPTABLE INVESTMENT INSTRUMENTS

Where this section specifies a percentage limitation for a particular security type or issuer, that percentage is applicable only on the date of purchase and shall be calculated on the basis of market value. Credit criteria listed in this section refers to the credit rating at the time the security is purchased. If an investment's credit rating falls below the minimum rating required at the time of purchase, the Finance Director/Treasurer or his/her designee will perform a timely review and decide whether to sell or hold the investment.

The City will limit investments in any one non-government or municipal issuer, except investment pools and money market funds, to no more than 5% regardless of security type.

Acceptable investments authorized for purchase by the Finance Director/Treasurer are:

1. **U.S. Treasury obligations** for which the full faith and credit of the United States are pledged for the payment of principal and interest.
2. **Federal agency or United States government-sponsored enterprise obligations**, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.
3. **Obligations of the State of California or any local agency within the state**, including bonds payable solely out of revenues from a revenue producing property owned, controlled or operated by the state or any local agency, or by a department, board, agency or authority of the state or any local agency that is rated in a rating category of "A" or its equivalent or better by a nationally recognized statistical-rating organization (NRSRO). Purchases of the obligations described in this subdivision and in subdivision 4 (registered treasury notes or bonds of any of the other 49 states in addition to California) collectively may not exceed 30% of the City's portfolio.
4. **Registered treasury notes or bonds of any of the other 49 states in addition to California**, including bonds payable solely out of the revenues from a revenue-

producing property owned, controlled, or operated by a state, or by a department, board, agency, or authority of any of these states that is rated in a rating category of “A” or its equivalent or better by an NRSRO. Purchases of the obligations described in this subdivision and in subdivision 3 (obligations of the State of California or any local agency within the state) collectively may not exceed 30% of the City’s portfolio.

5. **Bankers’ Acceptances** with a rating of the highest ranking or highest letter and number rating as provided for by an NRSRO. Purchases of bankers’ acceptances may not exceed 180 days. No more than 40% of the City’s portfolio may be invested in bankers’ acceptances.
6. **Commercial Paper** of “prime” quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper must meet all of the following conditions in either paragraph a or paragraph b:
 - a. The entity meets the following criteria: (i) is organized and operating in the United States as a general corporation, (ii) has total assets in excess of five hundred million dollars (\$500,000,000), and (iii) has debt other than commercial paper, if any, that is rated in a rating category of “A” or its equivalent or higher by an NRSRO.
 - b. The entity meets the following criteria: (i) is organized within the United States as a special purpose corporation, trust, or limited liability company, (ii) has program-wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond, and (iii) has commercial paper that is rated “A-1” or higher, or the equivalent, by an NRSRO.

Eligible commercial paper will have a maximum maturity of 270 days or less. No more than 2540% of the City’s portfolio may be invested in commercial paper. ~~The City may purchase no more than 10% of the outstanding commercial paper of any single issuer.~~

7. **Negotiable Certificates of Deposit** issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally- or state-licensed branch of a foreign bank. Eligible negotiable certificates of deposit (negotiable CDs) shall be rated in a rating category of “A” for long-term, “A-1” for short-term, their equivalents, or better by an NRSRO. No more than 30% of the City’s portfolio may be invested in negotiable CDs.
8. **Non-negotiable Certificates of Deposit** (time CDs) in a state or national bank, savings association or federal association, or federal or state credit union with a branch in the State of California. In accordance with California Government Code Section 53635.2, to be eligible to receive City deposits, a financial institution will have received an overall rating of not less than “satisfactory” in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California’s communities. Time CDs are required to be collateralized as specified under Government Code Section 53630 et seq. The City, at its discretion, may waive the collateralization requirements for any portion that is covered by federal

deposit insurance. The City will have a signed agreement with any depository accepting City funds per Government Code Section 53649. No deposits will be made at any time in time CDs issued by a state or federal credit union if a member of the City Council or the Finance Director/Treasurer serves on the board of directors or any committee appointed by the board of directors of the credit union. In accordance with Government Code Section 53638, any deposit will not exceed that total shareholder's equity of any depository bank, nor will the deposit exceed the total net worth of any institution.

9. **Medium-Term Notes** issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state and operating within the U.S. Medium-term corporate notes will be rated in a rating category "A" or its equivalent or better by a NRSRO. No more than 30% of the City's portfolio may be invested in medium-term notes.

10. Demand Deposits

11. Passbook Savings Accounts

12. **Shares of beneficial interest issued by diversified management companies** that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.). To be eligible for investment, money market funds must be managed with the goal of maintaining a stable net asset value (NAV) per share of \$1.00.

Further, to be eligible for investment pursuant to this subdivision these companies (money market funds) will either: (i) attain the highest ranking or the highest letter and numerical rating provided by at least two NRSROs or (ii) have retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience managing money market mutual funds and with assets under management in excess of \$500,000,000.

It is possible that a money market fund that is managed with the goal of maintaining a stable NAV per share of \$1.00 may be unable to maintain an NAV of \$1.00 per share due to market conditions or other factors. In such instances, the Finance Director/Treasurer or his/her designee will perform a timely review and decide whether to sell or hold the fund(s), subject to any restraints imposed by the money market fund(s).

No more than 20% of the City's investment portfolio may be invested in money market funds. Further, no more than 10% of the City's investment portfolio may be invested in any one money market fund.

13. **Mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed**

bond. Securities eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. Purchase of securities authorized by this subdivision may not exceed 20% percent of the City's investment portfolio.

14. Repurchase Agreements. Repurchase Agreements shall be used solely as short-term investments not to exceed 30 days.

- a. The City will enter into repurchase agreements only with primary government securities dealers as designated by the Federal Reserve Bank of New York. Repurchase agreements shall be governed by a SIFMA Master Repurchase Agreement. All securities underlying repurchase agreements shall be delivered to the City's custodian bank, or be handled under a properly executed "tri-party" custodial arrangement. Collateral for repurchase agreements is restricted to U.S. Treasury issues or Federal Agency issues.
- b. The underlying collateral must be at least 102% of the repurchase agreement amount. If the value of securities held as collateral slips below 102% of the value of the cash transferred, then additional cash or acceptable securities must be delivered to the third party custodian. Market value shall be recalculated each time there is a substitution of collateral. For repurchase agreements with terms to maturity of greater than three days, the value of the collateral securities shall be marked to market weekly by the custodian, and, if additional collateral is required, then that collateral must be delivered within two business days. If a collateral deficiency is not corrected within two days, the collateral securities will be liquidated.
- c. A perfected first security interest in the collateral securities, under the Uniform Commercial Code, shall be created for the benefit of the City. Collateral securities shall be held free and clear of any lien and shall be held by an independent third party acting solely as an agent for the City, and such third party shall be (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus, and undivided profits of not less than \$50 million.

15. Local Agency Investment Fund (State Pool) an investment pool run by the State Treasurer. The City can invest up to the maximum amount permitted by the State Treasurer.

16. County Investment Fund (San Mateo County Pool)

17. Shares of beneficial interest issued by a joint powers authority (Local Government Investment Pools or "Pool") organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (r) of California Government Code Section 53601, inclusive. Each share will represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. The Pool will be rated in a rating category "AAA" or its equivalent by a NRSRO. To be eligible under this section, the shares will maintain a

stable net asset value (NAV) and the joint powers authority issuing the shares will have retained an investment adviser that meets all of the following criteria:

- a. The adviser is registered or exempt from registration with the Securities and Exchange Commission.
- b. The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q) Government Code Section 53601, inclusive.
- c. The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

18. **Guaranteed Investment Contracts** (collateralized with Government Securities, physically delivered to an acceptable safekeeping account.)

19. **Supranationals** which are United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by at least one NRSRO. No more than 30% of the City's investment portfolio may be invested in supranationals.

RESTRICTION ON INVESTMENT POLICIES AND CITY CONSTRAINTS

Section 53600 et. seq. of the State of California Government Code outlines the collateral requirements for certain types of investments and also limits the percentage of total investments which can be placed in certain classifications. Investments must meet the time schedules as indicated by the cash flow projections of the City. Investments will be purchased with the intent to hold until maturity, however this will not preclude the sale of securities prior to maturity in order to reposition the portfolio's duration, credit quality, or enhance the rate of return.

INVESTMENT POOLS

The State pool and San Mateo County Pool invests in additional Government Code authorized investments that are not approved for *direct* purchase by the Finance Director/Treasurer. These pools shall provide a current investment policy and monthly reports for review by the Finance Director/Treasurer. The Finance Director/Treasurer is authorized to invest in these pools provided *they reasonably appear to be* in conformance with their investment policies.

MATURITY LIMIT

State law requires that the maturity of any given instrument should not exceed five years unless specifically approved by City Council at least three months before the investment is made.

INTERNAL CONTROL

The Finance Director/Treasurer is responsible for establishing and maintaining an internal control structure designed to provide reasonable assurance that the assets of the City are protected from loss, theft or misuse. The City Manager or designee shall arrange for an annual audit by an external CPA firm in compliance with the requirements of state law and generally accepted accounting principles as pronounced by the GASB (Governmental Accounting Standards Board.) As part of the audit, investment transactions will be tested. The annual audit will be an integral part, but not the sole part, of management's program of monitoring internal controls.

CUSTODY OF SECURITIES

All securities owned by the City, except time deposits and securities used as collateral for repurchase agreements, will be kept in safekeeping by a third-party bank's trust department, acting as an agent for the City under the terms of a custody agreement executed by the bank and the City.

All securities will be received and delivered using standard delivery versus payment procedures.

PERFORMANCE STANDARDS

The City's portfolio shall be structured to achieve a market-average rate of return through various economic cycles, commensurate with the investment risk constraints and the cash flow needs. The benchmark for "market-average rate" shall be the rate of return of an appropriate market-based index which has a duration similar to that of the the City's portfolio, against which portfolio performance shall be compared on a regular basis. Currently, the benchmark used for comparison purposes is the Bank of America Merrill Lynch 1-5 year U.S. Treasury index.

REPORTING

The Finance Director/Treasurer will provide a quarterly investment report to the City Council showing all transactions, type of investment, issuer, purchase date, maturity date, purchase price, yield to maturity, and current market value for all securities.

POLICY REVIEW

This Investment Policy will be reviewed at least annually to ensure its consistency with:

1. The California Government Code sections that regulate the investment and reporting of public funds.
2. The overall objectives of preservation of principal, sufficient liquidity, and a market return.

Approved by City Council on _____

| ~~Emily Beach~~Ann O'Brien Keighran, Mayor

Lisa Goldman
City Manager

Carol Augustine
Finance Director/Treasurer

ATTEST:

Meaghan Hassel-Shearer
City Clerk

Glossary

Asset Backed Securities (ABS) are securities backed by loans or receivables on assets other than real estate. ABS can be secured by a variety of assets including, but not limited to credit card receivables, auto loans, and home equity loans.

Bankers' Acceptances are short-term credit arrangements to enable businesses to obtain funds to finance commercial transactions. They are time drafts drawn on a bank by an exporter or importer to obtain funds to pay for specific merchandise. By its acceptance, the bank becomes primarily liable for the payment of the draft at maturity. An acceptance is a high-grade negotiable instrument.

Broker-Dealer is a person or a firm who can act as a broker or a dealer depending on the transaction. A broker brings buyers and sellers together for a commission. They do not take a position. A dealer acts as a principal in all transactions, buying and selling for his own account.

Certificates Of Deposit

1. **Negotiable Certificates of Deposit** are large-denomination CDs. They are issued at face value and typically pay interest at maturity, if maturing in less than 12 months. CDs that mature beyond this range pay interest semi-annually. Negotiable CDs are issued by U.S. banks (domestic CDs), U.S. branches of foreign banks (Yankee CDs), and thrifts. There is an active secondary market for negotiable domestic and Yankee CDs. However, the negotiable thrift CD secondary market is limited. Yields on CDs exceed those on U.S. treasuries and agencies of similar maturities. This higher yield compensates the investor for accepting the risk of reduced liquidity and the risk that the issuing bank might fail. State law does not require the collateralization of negotiable CDs.
2. **Non-negotiable Certificates of Deposit** are time deposits with financial institutions that earn interest at a specified rate for a specified term. Liquidation of the CD prior to maturity incurs a penalty. There is no secondary market for these instruments, therefore, they are not liquid. They are classified as public deposits, and financial institutions are required to collateralize them. Collateral may be waived for the portion of the deposits that are covered by FDIC insurance.

Collateral refers to securities, evidence of deposits, or other property that a borrower pledges to secure repayment of a loan. It also refers to securities pledged by a bank to secure deposits. In California, repurchase agreements, reverse repurchase agreements, and public deposits must be collateralized.

Commercial Paper is a short term, unsecured, promissory note issued by a corporation to raise working capital.

Demand Deposits are funds held that can be withdrawn at anytime without advance notice to the institution holding the funds.

Duration is a measure of the sensitivity of the price of a security or a portfolio of securities to a change in interest rates, typically stated in years.

Federal Agency Obligations are issued by U.S. Government Agencies or Government Sponsored Enterprises (GSE). Although they were created or sponsored by the U.S. Government, most Agencies and GSEs are not guaranteed by the United States Government. Examples of these securities are notes, bonds, bills and discount notes issued by Fannie Mae (FNMA), Freddie Mac (FHLMC), the Federal Home Loan Bank system (FHLB), and Federal Farm Credit Bank (FFCB). The Agency market is a very large and liquid market, with billions traded every day.

Guaranteed Investment Contracts (GIC) are contracts that guarantee principle repayment after a certain period of time along with a predetermined interest rate.

Issuer means any corporation, governmental unit, or financial institution that borrows money through the sale of securities.

Liquidity refers to the ease and speed with which an asset can be converted into cash without loss of value. In the money market, a security is said to be liquid if the difference between the bid and asked prices is narrow and reasonably sized trades can be done at those quotes.

Local Agency Investment Fund (LAIF) is a special fund in the State Treasury that local agencies may use to deposit funds for investment. There is no minimum investment period and the minimum transaction is \$5,000, in multiples of \$1,000 above that. It offers high liquidity because deposits can be converted to cash in twenty-four hours and no interest is lost. All interest is distributed to those agencies participating on a proportionate share determined by the amounts deposited and the length of time they are deposited. Interest is paid quarterly via direct deposit to the agency's LAIF account. The State keeps an amount for reasonable costs of making the investments, not to exceed one-quarter of one per cent of the earnings.

Local Government Investment Pools (LGIP) are investment tools similar to money market funds that allow public entities to invest funds.

Market Value is the price at which a security is trading and could presumably be purchased or sold.

Maturity is the date upon which the principal or stated value of an investment becomes due and payable.

Medium-Term Notes are debt obligations issued by corporations and banks, usually in the form of unsecured promissory notes. These are negotiable instruments that can be

bought and sold in a large and active secondary market. For the purposes of California Government Code, the term “Medium Term” refers to a maximum remaining maturity of five years or less. They can be issued with fixed or floating-rate coupons, and with or without early call features, although the vast majority are fixed-rate and non-callable. Corporate notes have greater risk than Treasuries or Agencies because they rely on the ability of the issuer to make payment of principal and interest.

Money Market Fund is a type of investment comprising a variety of short-term securities with high quality and high liquidity. The fund provides interest to shareholders. Eligible money market funds must strive to maintain a stable net asset value (NAV) of \$1 per share.

Mortgage Backed Securities (MBS) or Mortgage Passthrough Securities are securities that are backed cash flows from an underlying pool of mortgages.

Principal describes the original cost of a security. It represents the amount of capital or money that the investor pays for the investment.

Repurchase Agreements are short-term investment transactions. Banks buy temporarily idle funds from a customer by selling him U.S. Government or other securities with a contractual agreement to repurchase the same securities on a future date at an agreed upon interest rate. Repurchase Agreements are typically for one to ten days in maturity. The customer receives interest from the bank. The interest rate reflects both the prevailing demand for Federal Funds and the maturity of the Repo. Repurchase Agreements must be collateralized.

Supranational Entities are formed by two or more central governments with the purpose of promoting economic development for the member countries. Supranational institutions finance their activities by issuing debt, such as supranational bonds. Examples of supranational institutions include the European Investment Bank and the World Bank. Similarly to the government bonds, the bonds issued by these institutions are considered direct obligations of the issuing nations and have a high credit rating.

Total Return is the performance of a portfolio including interest income and any capital appreciation or depreciation as a result of interest rate movements.

U.S. Treasury Issues are direct obligations of the United States Government. They are highly liquid and are considered the safest investment security. U.S. Treasury issues include:

1. **Treasury Bills** which are non-interest-bearing discount securities issued by the U.S. Treasury to finance the national debt. Bills are currently issued in one, three, six, and twelve month maturities.
2. **Treasury Notes** that have original maturities of one to ten years.
3. **Treasury Bonds** that have original maturities of greater than 10 years.

Yield to Maturity is the rate of income return on an investment, minus any premium above par or plus any discount with the adjustment spread over the period from the date of the purchase to the date of maturity of the bond.