CITY OF EMERYVILLE

MEMORANDUM

DATE: February 27, 2012

TO: Finance Committee

FROM: Karan Reid, Chief Financial Officer

SUBJECT: Investment Concentration Risk and Custodial Bank Risk

Action Requested:

Provide direction to staff on the following items:

- Recommended changes to the current Investment Policy
- Investment of Successor Agency funds

Discussion:

At its November 21, 2011 meeting, the Finance Committee requested staff to prepare a discussion item on investment concentration and custodial bank risk.

Investment Concentration

The following table details the City's approved investment categories, the authorized limits in those categories and the concentration by category as of December 31, 2011. Maturities are not to exceed 5 years without Council Authorization.

Investment	Maximum Specified Percentage of Portfolio	Minimum Quality Requirements	December 31, 2011 Holdings
US Treasury Bills	None	None	0%
US Government Agencies	None	None	36%
City of Emeryville Bonds, Notes, Warrants	None	None	0%
LAIF (State Pool)	None	None	36%
Prime Commercial Paper	15%, Ave Maturity 32-270 days 30% Ave Maturity < 31 days	Highest rating by S&P & Moody's	0%
Negotiable Certificates of Deposit	30%	None	0%
Medium Term Corporate Notes	15%	"AA" rating	0%
Money Market Mutual Funds	20%	Highest rating by 2 rating agencies	28%
Insured/Collateralized CDs	None	In accordance with Govt Code Section 53651 & 53652	<1%

Government Agencies

In August, Standard & Poor's rating agency downgraded the U.S. long-term rating one notch to "AA+". They then proceeded to address entities that have direct ties, or enjoy support, from the government. These included the Government Sponsored Entities (GSEs); Federal National Mortgage Association (FNMA/Fannie Mae), Federal Home Loan Mortgage Corporation (FHLMC/Freddie Mac), Federal Home Loan Bank (FHLB) and Federal Farm Credit Bank (FFCB/Farm Credit)., all of which were moved to the same long-term ratings as the U.S. government at AA+. S&P also downgraded the ratings of FDIC-backed bonds to AA+. Moody's and Fitch credit rating agencies affirmed their U.S. government and related entities' credit rating of AAA. Such investments are maintained within the City's portfolio, and have been downgraded accordingly. These investments will continue to be reviewed for creditworthiness, but no serious concerns are anticipated at this time.

Because of their government affiliation, agency bonds are very secure, essentially backed by the full faith and credit of the U.S. Government. Also, due to their affiliation with the federal government, agencies receive low interest rates on the money they borrow, have low capital requirements, and are exempt from most state and federal taxes.

As of December 31, 2011, the City's investment portfolio holdings consisted of the following government agencies:

Agency	Amount Held	Percentage of Portfolio
FHLB	$37,937,000	21.10%
FFCB	24,000,000	13.40%
FNMA	1,000,000	0.60%
FHLMC	1,000,000	0.60%

After concerns voiced by the Finance Committee, staff ceased purchasing new investments in FNMA and FHLMC as of April 2011. The $2,000,000 in remaining investments will mature in April 2012 and 2013, respectively.

Local Agency Investment Fund (LAIF)

As of December 31, 2011, the City had $64.3 million in its two LAIF accounts. As a result of the Supreme Court decision to uphold the dissolution of redevelopment, effective February 1, the State Treasurer's Office posted a notice on their website (on January 25) that effective February 1, all redevelopment agency accounts would be frozen until such time as a new account in the Successor Agency's name is set up and a resolution approving those individuals authorized to conduct LAIF business on behalf of the Successor Agency is sent to LAIF. Along with most, if not all, redevelopment agencies in the State with funds on deposit with LAIF, the City withdrew all funds ($38.5 million) in the redevelopment account on January 27. Due to the short time frame in which the City received this notice, it was impossible to locate an alternate investment vehicle. As a result the withdrawn funds, along with the existing cash on hand allocable to the redevelopment agency, were deposited in a new checking account dedicated to conducting business for the Successor Agency to the Emeryville Redevelopment Agency. Currently, the account has a balance of $48.0 million.

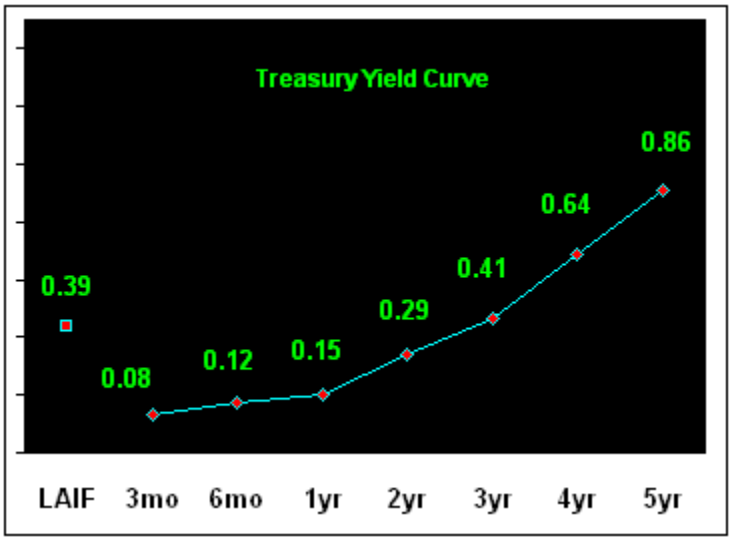
Staff is requesting recommendations from the Finance Committee whether these funds should be invested in an interest bearing account and if so, recommendations as to the type of investment vehicle.

Some of these funds on hand will be used to pay enforceable obligations listed on the Enforceable Obligations Payment Schedule and some of the funds are at risk of being turned over to the County at some point in the near future. As a result, staff recommends the funds be invested in short-term, liquid investments such as a money market fund or LAIF.

Some public agencies have voiced reservations of re-depositing the funds in LAIF as it is under control of the State and there is a political agenda to divest redevelopment as quickly as possible. Therefore, some view there is a risk that access to these Successor Agency LAIF funds may be restricted. Government Code Sections 16429.3 and 16429.4 prohibit the State from seizing or borrowing these funds. However, the State Treasurer could make access to the funds more difficult.

An alternative to LAIF is a money market fund such as that offered by Cal Trust, a Joint Powers Authority created by public agencies to provide a convenient method for public agencies to pool their assets for investment purposes. Information on CAL Trust and a list of participating agencies are attached to this report.

Below is the current (February 22, 2012) treasure yield curve compared to LAIF:



Custodial Bank Risk

According to the City's Investment Policy, financial institutions are selected on the basis of credit worthiness, financial strength, experience, references and minimal capitalization that are authorized to provide investment capacity. No public deposit shall be made except in a qualified public depository as established by state laws.

The City's primary custodial banks are Union Bank, third party custodian for the City's securities, and Bank of New York Mellon, third party fiscal agent for the City's bond related accounts. The City

has its operating accounts with Wells Fargo. Custodial banks role includes settling security transactions and transferring the investments to the City's name in a very expedient manner. Default by these banks would not impact our investment holdings as the investments are in the City's name, not the custodial bank's name. Wells Fargo accounts are insured for up to $250,000 under FDIC insurance. Funds in excess of $250,000 would be at risk.

The financial condition and performance of commercial banks can be monitored by reviewing:

- Call Reports submitted to the Federal Financial Institutions Examination Council
- Local Agency Securities Report confirming compliance with public agency deposit collateralization requirements
- The institution's annual report for material weaknesses in internal control over financial reporting.

Bank capital serves as an important cushion against unexpected losses. It creates a strong incentive to manage a bank in a prudent manner, because the bank owners' equity is at risk in the event of a failure. Thus, bank capital plays a critical role in the safety and soundness of individual banks and the banking system. Federal Capital Adequacy Categories and Definitions are detailed below:

Well Capitalized: Total Risk-Based Capital Ratio is over 10% and Tier 1 Risk-Based Capital Ratio is over 6% and Leverage Ratio is over 5%.

Adequately Capitalized: Total Risk-Based Capital Ratio is between 8% and 10% and Tier 1 Risk-Based Capital Ratio is between 4% and 6% and Leverage Ratio is between 4% and 5%.

Under Capitalized: Total Risk-Based Capital Ratio is less than 8% or Tier 1 Risk-Based Capital Ratio is less than 4% or Leverage Ratio is less than 4%.

Significantly Undercapitalized: Total Risk-Based Capital Ratio is less than 6% or Tier 1 Risk-Based Capital Ratio is less than 3% or Leverage Ratio is less than 3%.

Critically Undercapitalized: A ratio of tangible equity to total assets less than or equal to 2%.

The following table details the capitalization from the December 2011 Call Reports:

Institution	Total Capital Ratio	Tier 1 Capital Ratio	Leverage Ratio
Benchmark	>8-10%	>4-6%	>4%
Wells Fargo	12.79%	10.04%	8.31%
Union Bank	14.43%	12.39%	10.25%
BNY Mellon	357.72%	357.72%	55.31%

Based on these capitalization ratios, reviews of the Banks' annual audit reports and our long standing experience with these banks, staff feels confident these institutions are strong, financially stable institutions that meet our financial needs.

Attachment:

Treasurer's Report for December 2011
City's Investment Policy approved August 2011
CAL Trust FAQ and list of Participating Agencies

CITY OF EMERYVILLE

MEMORANDUM

DATE: January 30, 2012

TO: Patrick O'Keeffe, City Manager

FROM: Karan Reid, Chief Financial Officer

SUBJECT: **Highlights of December 2011 Treasurer's Report**

The monthly Treasurer's Report is attached. Please note the following highlights:

Transactions:

Benchmark five-year Treasury yields were 12 basis points lower than last month of 0.95% to a December close of 0.83%. The spread between agencies and treasuries decreased from 39 to 31 basis points. The monthly average rate of return reported by LAIF was 0.38%. There were three calls totaling $6.0 million during the month with coupons ranging from 1.69% to 2.34%. There were two new purchases totaling $2.94 million (face value) in agency bonds with initial coupon rates of 0.75% with 4.5 to 5 year maturities.

Yield and Average Portfolio Maturity:

1. Overall yields on the value of our portfolio decreased 3 basis points to .70%. Excluding the lower yields from investments held for unspent bond proceeds and bond reserve funds; our portfolio yield is 0.85%, down from 0.90% in November.

2. Average Portfolio Maturity, if all securities were held to maturity, decreased from 625 days to 597 days. The average life of the portfolio to the shorter of the call or maturity is 78 days. This number reflects the expectation that certain securities may be called before the stated maturity date. Approximately 64% of our portfolio is available for immediate needs with maturities under ninety days. This high percentage includes $27.4 million of unspent bond proceeds earmarked for CIP projects. We expect that there is sufficient investment liquidity and anticipated revenues to meet the City's budgeted expenditures for the next six months.

Impacts of Dissolution of Emeryville Redevelopment Agency

The City and Redevelopment Agency pool cash for treasury purposes through shared bank accounts and investment vehicles. As a result of the dissolution of the redevelopment agency, it is necessary to segregate the cash and investments between the City and the City as Successor Agency to the Emeryville Redevelopment Agency as of February 1, 2012. Beginning with the February 2012 investment report, staff will present two separate reports representing the treasury assets held by each entity. As of December 31, 2011, the portion of the investment portfolio allocable to the **Successor Entity to the Redevelopment Agency (non-housing)** is $62,532,120, the portion allocable to the **City as Housing Successor** is $17,541,460 and the remaining investments related to the **City's activities** total $99,668,388.

Staff will continue to closely monitor cash on hand in the respective portfolios to ensure adequate liquidity to meet anticipated obligations.

Approved and Forwarded to the City Council

Patrick O'Keeffe, City Manager

CITY OF EMERYVILLE	Treasurer's Report
As of	12/31/11

Maturities, Sales and Purchases During the Month

Description of Investment	Maturity, call Sale or Purchase/Renewal Withdrawal / Funding	Face Value	Coupon Rate	Investment Rating Moody's / S&P	Purchase Date or Funding Date	Maturity or Withdrawal Date	Cost Basis	Sale, Call Date	Sale Amount
FFCB	Call	2,000,000	2.00%	Aaa / AA+	12/22/2010	12/22/2014	2,000,000	12/22/11	
FFCB	Call	2,000,000	1.69%	Aaa / AA+	6/9/2011	6/9/2015	2,000,000	12/09/11	
FHLBC	Call	2,000,000	2.34%	Aaa / AA+	5/23/2011	5/23/2016	2,000,000	12/06/11	
FHLB STEP NOTE	Purchase	2,000,000	0.75%	Aaa / AA+	12/8/2011	9/28/2016	2,000,000		
FHLB STEP NOTE	Purchase	940,000	0.75%	Aaa / AA+	12/28/2011	12/28/2016	940,000		

CITY OF EMERYVILLE	Treasurer's Report
As of	12/31/11

Current Portfolio

Description of Investment	Percentage of Portfolio	Face Value	Coupon Rate	Investment Rating Moody's / S&P	Purchase Date	Maturity Date	Cost Basis	Current Yield	Estimated Market Value	Estimated Annual Income	Weighted Average Maturity in Days	Fund (if not in General Treasury)
Local Agency Investment Fund												
City (Primary Account)		25,874,102	Varies	NR	Varies	Daily	25,874,102	Varies	25,898,626	98,839	1	
Redev Agcy (Primary Account)		38,425,798	Varies	NR	Varies	Daily	38,425,798	Varies	38,462,218	146,787	1	
Sub-Total - LAIF	**35.8%**	**64,299,900**					**64,299,900**		**64,360,845**	**245,626**		
			Note: Monthly average rate of return reported by LAIF.					0.382%				
Certificates of Deposits												
Summit Bank - CD		100,000	0.60%	AAA	04/28/11	04/27/12	100,000	0.60%	100,000	600	118	
Bank of Alameda-CD		100,000	0.35%	AAA	10/24/11	04/24/12	100,000	0.35%	100,000	350	115	
Sub-Total - CDs	**0.1%**	**200,000**					**200,000**		**200,000**	**950**		
Government/Agency Issues												
FFCB		2,000,000	2.00%	Aaa / AA+	11/23/2010	11/23/2015	2,000,000	1.99%	2,012,680	40,000	1423	
FFCB		2,000,000	2.37%	Aaa / AA+	1/11/2011	1/11/2016	2,000,000	2.37%	2,000,960	47,400	1472	
FFCB		2,000,000	1.48%	Aaa / AA+	2/14/2011	2/14/2014	2,000,000	1.48%	2,002,680	29,600	776	
FFCB		2,000,000	2.54%	Aaa / AA+	3/30/2011	3/30/2016	2,000,000	2.53%	2,011,680	50,800	1551	
FFCB		2,000,000	1.93%	Aaa / AA+	5/13/2011	5/13/2015	2,000,000	1.91%	2,022,080	38,600	1229	
FFCB		2,000,000	1.75%	Aaa / AA+	8/15/2011	8/15/2016	2,000,000	1.74%	2,011,980	35,000	1689	
FFCB		2,000,000	1.37%	Aaa / AA+	10/11/2011	10/11/2016	2,000,000	1.37%	2,007,620	27,400	1746	
FFCBC		2,000,000	2.09%	Aaa / AA+	7/18/2011	7/18/2016	2,000,000	2.07%	2,016,160	41,800	1661	
FFCBC		2,000,000	1.50%	Aaa / AA+	9/6/2011	9/6/2016	2,000,000	1.49%	2,011,860	30,000	1711	
FFCBC		2,000,000	1.37%	Aaa / AA+	10/11/2011	10/11/2016	2,000,000	1.37%	2,007,620	27,400	1746	
FFCBC		2,000,000	1.62%	Aaa / AA+	10/18/2011	10/18/2016	2,000,000	1.61%	2,014,740	32,400	1753	
FFCBC		2,000,000	1.63%	Aaa / AA+	11/3/2011	10/3/2016	2,000,000	1.62%	2,002,160	32,500	1738	
Sub-Total - FFCB	**13.4%**	**24,000,000**					**24,000,000**		**24,122,220**	**432,900**		
FHLB		1,000,000	2.00%	Aaa / AA+	3/25/2010	10/30/2013	1,000,000	1.94%	1,028,590	20,000	669	
FHLB		2,000,000	1.13%	Aaa / AA+	10/27/2011	10/27/2015	2,000,000	1.12%	2,001,160	22,500	1396	
FHLB		2,000,000	1.75%	Aaa / AA+	11/10/2011	11/10/2016	2,000,000	1.75%	2,002,740	35,000	1776	
FHLB		2,000,000	1.50%	Aaa / AA+	11/17/2011	5/17/2016	2,000,000	1.50%	2,002,560	30,000	1599	
FHLBC		2,000,000	1.55%	Aaa / AA+	11/1/2011	11/1/2016	2,000,000	1.55%	2,001,840	31,000	1767	
FHLB STEP NOTE		2,000,000	0.50%	Aaa / AA+	9/30/2011	9/30/2016	2,000,000	0.50%	2,001,320	10,000	1735	
FHLB STEP NOTE		3,000,000	1.00%	Aaa / AA+	10/21/2011	10/13/2016	3,000,000	1.00%	3,000,780	30,000	1748	
FHLB STEP NOTE		3,000,000	1.00%	Aaa / AA+	10/25/2011	10/19/2016	3,000,000	1.00%	3,005,070	30,000	1754	
FHLB STEP NOTE		2,000,000	0.75%	Aaa / AA+	10/26/2011	10/26/2015	2,000,000	0.75%	2,007,920	15,000	1395	
FHLB STEP NOTE		2,000,000	0.75%	Aaa / AA+	10/27/2011	10/27/2016	2,000,000	0.75%	2,000,600	15,000	1762	
FHLB STEP NOTE		1,999,000	0.75%	Aaa / AA+	10/27/2011	10/27/2016	1,999,000	0.75%	2,003,580	14,993	1762	
FHLB STEP NOTE		3,000,000	1.05%	Aaa / AA+	10/27/2011	10/27/2016	3,000,000	1.05%	3,001,410	31,500	1762	
FHLB STEP NOTE		1,998,500	1.00%	Aaa / AA+	10/31/2011	10/27/2016	1,998,500	1.00%	2,004,020	19,985	1762	
FHLB STEP NOTE		2,000,000	1.00%	Aaa / AA+	11/22/2011	11/22/2016	2,000,000	1.00%	2,003,760	20,000	1788	
FHLB STEP NOTE		3,000,000	1.00%	Aaa / AA+	11/23/2011	11/23/2016	3,000,000	1.00%	2,998,950	30,000	1789	
FHLB STEP NOTE		2,000,000	1.35%	Aaa / AA+	11/23/2011	11/23/2016	2,000,000	1.35%	2,003,640	27,000	1789	
FHLB STEP NOTE		2,000,000	0.75%	Aaa / AA+	12/8/2011	9/28/2016	2,000,000	0.75%	2,001,220	15,000	1733	
FHLB STEP NOTE		940,000	0.75%	Aaa / AA+	12/28/2011	12/28/2016	940,000	0.75%	939,962	7,050	1824	
Sub-Total - FHLB	**21.1%**	**37,937,500**					**37,937,500**		**38,009,252**	**404,028**		
FHLMC		1,000,000	3.63%	Aaa / AA+	4/23/2008	4/23/2012	1,000,000	3.59%	1,010,460	36,250	114	
Sub-Total - FHLM	**0.6%**	**1,000,000**					**1,000,000**		**1,010,460**	**36,250**		

CITY OF EMERYVILLE — Treasurer's Report
As of 12/31/11

Description of Investment	Percentage of Portfolio	Face Value	Coupon Rate	Investment Rating Moody's / S&P	Purchase Date	Maturity Date	Cost Basis	Current Yield	Estimated Market Value	Estimated Annual Income	Weighted Average Maturity in Days	Fund (if not in General Treasury)
FNMA		1,000,000	4 13%	Aaa / AA+	4/15/2008	4/15/2013	1,000,000	3.93%	1,049,110	41,250	471	
Sub-Total - FNMA	0.6%	1,000,000					1,000,000		1,049,110	41,250		
Fidelity Institutional Money Market Government Fund		8,105,234	0.02%	AAA	Varies	Daily	8,105,234	0.01%	8,105,234	1,620	1	Custodian: Union Bank
*Fidelity Treasury Portfolio Money Market Government Fund		27,389,083	0.01%	AAA	Varies	Daily	27,389,083	0.01%	27,389,083	2,739	1	Custodian: US Bank
*Dreyfus Money Market Fund		13,663,448	0.00%	AAA	Varies	Daily	13,663,448	0.00%	13,663,448	0	1	Trustee: Bank of New York
*Goldman Sachs Inst Money Market Fund		647,970	0.01%	AAA	Varies	Daily	647,970	0.01%	647,970	65	1	Trustee: Bank of New York
Sub-Total - Govt Portfolio	63.3%	113,743,235					113,743,235		113,996,777	918,851		
Corporate Issues												
Sub-Total - Corporate Portfolio	0.0%	0					0		0	0		
*Investment Contracts												
Morgan Guaranty Trust/Chase		459,750	5.56%	Aaa	07/02/98	05/01/28	459,750	5.56%	459,750	25,539	5,966	1998A Bond Reserve
Westdeutsche L/Bank		442,009	5.66%	A	08/06/99	09/02/21	442,009	5.66%	442,009	25,018	3,533	1999 AD Reserve Fd
Westdeutsche L/Bank		421,017	5.66%	A	08/06/99	09/03/19	421,017	5.66%	421,017	23,830	2,803	1999 AD Reserve Fd
Westdeutsche L/Bank		176,057	5.66%	A	08/06/99	09/04/12	176,057	5.66%	176,057	9,965	248	1999 AD Reserve Fd
Sub-Total - Inv. Contract	0.8%	1,498,833					1,498,833		1,498,833	84,351		
Total Investment	100.0%	179,741,967					179,741,967	0.70%	180,056,454	1,249,778	597	
Non-Bond proceed and reserve investments (memo only)		136,542,633					136,542,633	0.85%	136,857,121	1,162,623		

** Bond proceeds and/or reserves investments*

Average Life of Portfolio to in Days: 78

Market value information obtained from Trustee Statements and Custodian Statements.

In compliance with California Code Section 53646, I certify that sufficient investment liquidity and anticipated revenues are available to meet the City's budgeted expenditure requirements for the next six months. Investments in the report meet the requirements of the City of Emeryville's adopted investment policy.

Approved and Forwarded to the City Council

Karan Reid, Chief Financial Officer

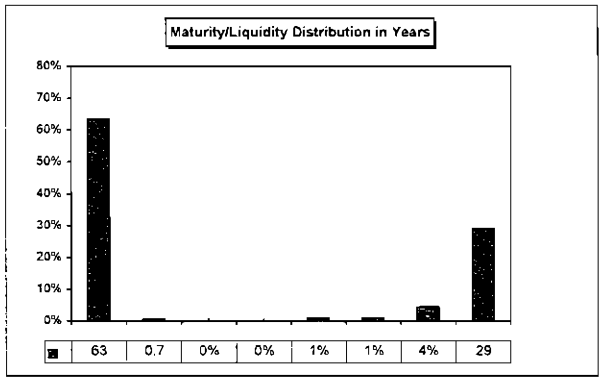
Patrick O'Keeffe, City Manager

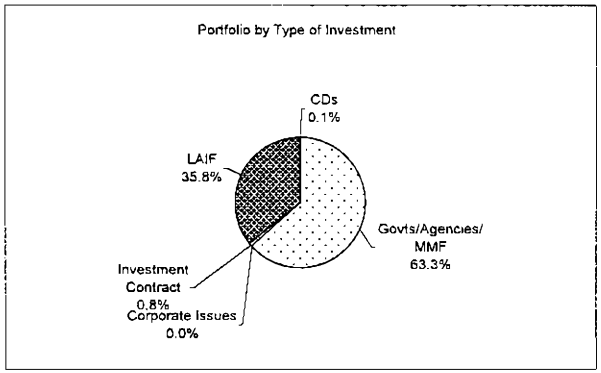
CITY OF EMERYVILLE	Treasurer's Report
As of	12/31/11

Portfolio Statistics
12/31/11

Face Value Maturity/Liquidity Distribution in Years

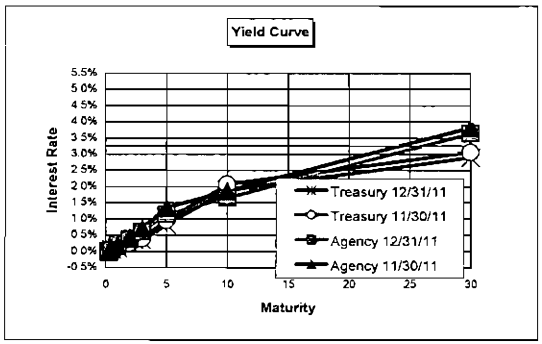
Term	0- 25	.26-.50	.51-.75	76-1 0	1.1-2.0	2 1-3 0	3 1-4.0	>4.1	Total
LAIF	64,299,900								64,299,900
Certificates of Deposit		200,000							200,000
Government/Agency Issues	49,805,735	1,000,000			2,000,000	2,000,000	8,000,000	50,937,500	113,743,235
Corporate Issues									-
Investment Contracts				176,057				1,322,776	1,498,833
Total	114,105,634	1,200,000	-	176,057.00	2,000,000	2,000,000	8,000,000	52,260,276	179,741,967
% of Portfolio	63%	0.7%	0%	0%	1%	1%	4%	29%	100%





Comparative Market Rates
Treasury and Agency Markets

		Treasury 12/31/11	Treasury 11/30/11	Agency 12/31/11	Agency 11/30/11
3	Month	0.02%	0 01%	0 01%	-0.04%
6	Month	0 06%	0.06%	0.05%	0.09%
1	Year	0 11%	0 11%	0 23%	0.17%
2	Year	0.24%	0.26%	0.38%	0.44%
3	Year	0 36%	0 40%	0 61%	0.70%
5	Year	0.83%	0 95%	1 14%	1 34%
10	Year	1.88%	2.07%	1.66%	1.87%
30	Year	2.90%	3.06%	3.64%	3.83%



CITY OF EMERYVILLE	Treasurer's Report
As of	12/31/11

	Investment by Fund Type (at cost)
General Fund	10,137,848
Special Revenue Funds	32,141,626
Debt Service Funds	14,769,887
Capital Projects Funds	81,423,583
Enterprise Funds	4,305,796
Internal Service Funds	22,745,779
Trust and Agency Funds	14,217,448
	179,741,967

RESOLUTION NO.11-185

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF EMERYVILLE ADOPTING ITS STATEMENT OF INVESTMENT POLICY

WHEREAS, California Government Code Section 53646 was legislatively amended in 2005 to allow for the elective, though not mandatory, annual rendering of a Statement of Investment Policy to be submitted to the local agency legislative body for consideration; and

WHEREAS, the Emeryville City Council last approved the Statement of Investment Policy in July 2010; and

WHEREAS, the City's current Investment Policy remains prudent and no changes are currently needed; now therefore, be it

RESOLVED, that the Emeryville City Council hereby adopts its Statement of Investment Policy, attached hereto as Exhibit A to take effect September 2011.

ADOPTED, by the City Council of the City of Emeryville at a regular meeting held September 6, 2011 by the following votes:

AYES: (5)Mayor Davis, Vice Mayor West and Council Members Atkin, Brinkman & Bukowski

NOES: (0) None **ABSENT:** None

EXCUSED: None **ABSTAIN:** None

Mayor

ATTEST:

City Clerk

APPROVED AS TO FORM:

City Attorney

CITY OF EMERYVILLE
STATEMENT OF INVESTMENT POLICY
September 2011

POLICY

It is the policy of the City to invest public funds in a prudent manner which will provide the highest yield with the maximum security of principal invested while meeting the daily cash requirements and conforming to all applicable federal, state and local statutes.

SCOPE

The policy applies to all financial assets of the City and includes retirement funds. Financial assets are reported in the City's Comprehensive Annual Financial Report and are accounted for in the following funds:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Debt Service Funds
- Internal Service Funds
- Enterprise Funds
- Fiduciary Funds
- Redevelopment Agency Funds
- Any new fund created by the City Council unless specifically exempted.

The provisions of the related bond indentures or resolutions shall govern investments of bond proceeds.

PRUDENCE

The City shall manage its investments under the standard of the "prudent investor" rule (California Government Code Section 53600.3), which shall be applied in the context of an overall portfolio. 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. Investment officers acting in accordance with 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.

INVESTMENT OBJECTIVES

The criteria for investing and managing public funds and the order of priority are as follows:

Capital Preservation (Safety): Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in the portfolio's composition.

Liquidity: The portfolio shall remain sufficiently liquid to meet all operating requirements which might be reasonably anticipated. Liquidity refers to the ability to sell an investment at any given moment with a minimal chance of losing some portion of principal or interest.

Yield: The portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

DELEGATION OF AUTHORITY

Authority to manage the City's investment program is derived from the California Government Code. Management responsibility is hereby delegated to the Treasurer, who shall establish procedures for the operation of the investment program consistent with this investment policy. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinates. The Treasurer can designate a staff person(s) to be responsible for investment transactions.

ETHICS AND CONFLICTS OF INTEREST

The Treasurer and all investment personnel shall refrain from personal business activities that could conflict with proper execution of the investment program and/or which could impair their ability to make impartial investment decisions. The Treasurer and all investment personnel shall disclose to the City Manager and the City Council any material financial interests in financial institutions that conduct business within this jurisdiction and shall disclose any material investment positions which could be related in a conflicting manner to the performance of the City's investment portfolio.

The State of California Fair Political Practices Commission Statement of Economic Interests shall be completed on an annual basis by the Treasurer.

AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

The Treasurer will maintain a list of financial institutions, selected on the basis of credit worthiness, financial strength, experience, references and minimal capitalization that are authorized to provide investment capacity. No public deposit shall be made except in a qualified public depository as established by state laws.

An annual audited financial statement is required to be submitted by each financial institution and broker/dealer. The registration status and standing of all brokers/dealers shall be verified with the National Association of Securities Dealers, the Securities and Exchange Commission or other applicable self-regulatory organizations.

Annually and before engaging in investment transactions with a broker/dealer, the firm shall sign a certification form, attesting that the individual responsible for the City's account with that firm has reviewed the investment policy and that the firm understands the policy and intends to present only those investment transactions appropriate under the policy.

AUTHORIZED AND SUITABLE INVESTMENTS

The City is empowered by California Government Code Section 53601 to invest in the following types of securities:

- United States Treasury bills, notes, bonds, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

- Obligations issued by agencies or instrumentalities of the U.S. Government.

- Bonds, notes, warrants or other evidence of debt issued by a City of Emeryville entity

- The Local Agency Investment Fund (LAIF) maintained by the State of California.

- Prime commercial paper with a term not to exceed 270 days and the highest rating issued by Moody's Investors Service or Standard & Poor's Corporation. Commercial paper cannot exceed 15% of total surplus funds, provided that if the average maturity of all commercial paper does not exceed 31 days, up to 30% of surplus funds can be invested in this type of security. Eligible paper shall be issued by corporations that are organized and operating within the United States, having total assets in excess of $500,000,000 and having an "AA" or higher rating for the debt,

other than commercial paper, if any, as provided by Moody's Investors Service or Standard & Poor's Corporation.

- Negotiable certificates of deposit issued by federally or state chartered banks or associations or by a state licensed branch of a foreign bank. Purchases may not exceed 30% of surplus funds.

- Medium term notes with a maximum maturity of five years, by corporations organized and operating in the United States and rated "AA" or better by a recognized rating service. No more than 15% of surplus funds can be invested in this type of security.

- Money Market Mutual Funds. Shares of beneficial interest issued by diversified management companies investing in the securities and obligations authorized by this section. Such funds must carry the highest rating of at least two of the largest national rating agencies. No more than 20% of surplus funds can be invested in such funds. The companies shall retain an investment adviser registered with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations as authorized by this section, and with assets under management in excess of $500,000,000. The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include any commission that these companies may charge.

- Insured or collateralized time deposits or savings accounts secured in accordance with the provisions of Sections 53651 and 53652 of the California Government Code. If the collateral is government securities, 110% of market value to the face amount and accrued interest of the deposit is required. If secured by first mortgages and first deeds of trust, the market value must be 150% of the face amount and accrued interest of the deposit. The collateral must be held by a third party.

Required ratings will be deemed to be the rating on the date of purchase.

A five year maximum remaining maturity is allowed unless an extension of maturity is granted by the City Council.

SAFEKEEPING AND CUSTODY

All security transactions shall be conducted on a delivery versus payment (DVP) basis. All securities purchased or acquired shall be held by a third party custodian with a custodial agreement with the City.

DIVERSIFICATION AND OTHER GUIDELINES

The City will diversify its investments by security type, except for securities issued by the U.S. Government and its agencies, and by institution to reduce or eliminate risk of loss. The following guidelines shall apply:

- Maturities shall be matched against projected liabilities to avoid an over-concentration in a specific series of maturities.
- Maturities selected shall provide for stability and liquidity.
- Every transaction will be reviewed by the Treasurer and City Manager.
- Expenditures and revenues will be carefully monitored and forecast to allow as much money to be invested as possible.
- In general, securities will be bought and kept to maturity.
- The City's cash should be pooled.
- The Local Agency Investment Fund should be used to provide daily liquidity to the portfolio. The portfolio will be diversified to balance yield with other objectives.

REPORTING

The Treasurer shall submit to each member of the City Council a monthly report. The report shall contain a complete description of the portfolio, including the types of investments, issuers, maturity dates, par values and current market values. The report will also include a certification of the following:

- All investments meet the requirements of the City's investment policy.
- Sufficient investment liquidity and anticipated revenues are available to meet the City's budgeted expenditure requirements for the next six months.

ADOPTION

The investment policy shall be adopted annually by resolution of the City Council.

GLOSSARY

The attached Glossary is incorporated as part of the policy.

GLOSSARY

The following technical words are included in the policy because they are common treasury and investment terminology.

Agencies: Debt instruments issued by the U.S. government agencies, departments, government-sponsored corporations and related instrumentalities to finance their own programs. Some examples of these agencies are Federal Farm Credit, Federal Home Loan and Student Loan Marketing Association.

Asked: The price at which securities are offered. The offer price is the cost of the security to the buyer.

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

Bid: The price offered by a buyer of securities. This is payment that the seller gets when a security is sold.

Broker: A broker brings a buyer and seller together for a commission.

Callable: Securities subject to payment of the principal amount and accrued interest prior to the stated maturity date, with or without premium.

Certificate of Deposit (CD): A time deposit with a specific maturity evidences by a certificate issued by commercial banks and savings institutions. The first $250,000 is insured by the FDIC. For governmental agency, deposits in excess of $250,000 are required to be collateralized by the financial institutions.

Collateral: Securities, evidences of deposit or other property which a borrower pledges to secure repayment of a loan or to secure deposits of public moneys.

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

CUSIP Number: An identifying number developed by the Committee on Uniform Security Identification Procedures, under the auspices of the American Bankers Association to provide a uniform method of identifying municipal, U.S. government, and corporate securities.

Dealer: A dealer, as opposed to a broker, acts as a principally 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. 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 signed receipt for the securities.

Discount: The difference between the cost rice of a security and its 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 below the face amount and redeemed at maturity at full face value, such as Treasury Bills.

Diversification: Dividing investments of funds among a variety of securities offered independent returns, maturity and market risks.

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits currently up to $250,000 per deposit.

Federal Home Loan Banks (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks has a role parallel to that played by the Federal Reserve Bank toward member commercial banks.

Federal National Mortgage Association (FNMA): A federal corporation working under the auspices Department of Housing and Urban Development. It is the largest single provider of residential mortgage funds. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed rate mortgages. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

Federal Home Loan Mortgage Corporation (Freddie Mac): This agency was established in 1070 to help maintain the availability of mortgage credit for residential housing.

Federal Reserve System: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

Liquidity: As asset 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.

Local Agency Investment Fund (LAIF): The aggregate of all funds for political subdivisions that are placed in the custody of the State Treasurer for investment.

Market Value: The price at which a security if trading and could presumably be purchased or sold.

Master Repurchase Agreement: A secured contractual obligation between an investor and an issuing financial institution establishing each party's rights in the transactions. It specifies the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower. The investor exchanges cash for temporary ownership of the collateral securities with an understanding the seller-borrower (financial institution) will repurchase the securities. Interest income earned during the term belongs to the investor.

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

Offer: The price asked by a seller of securities. When buying securities the investor asks for an offer.

Portfolio: Collection of securities held by an investor.

Primary Dealer: A group of government securities dealers who 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 (SEC)-registered securities broker-dealers, banks and a few unregulated firms.

Prudent Person Rule: A standard followed by a person of discretion and intelligence to seek a reasonable income and at the same time preserve the principal.

Rate of Return: The yield of a security based on the ratio of the coupon income to the purchase of market price.

Safekeeping: A service to customers rendered by financial institutions for a fee whereby securities and valuables of all types and descriptions are held in the bank's vault for protection. Other services which are normally provided are marking the portfolio to market value, reporting investments held and investment activities.

Securities & Exchange: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Treasury Bills: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Bills have maximum maturity of one year.

Treasury Bond: Long-term U.S. Treasury securities having initial maturities of more than 10 years.

Variable rate note: Securities which pay interest at rates that can fluctuate during the life of the security.

When issued: A conditional transaction that takes place between the time a new issue is offered and the time of physical delivery of the bonds. It is understood between the buyer and the seller that transactions will occur when and if the bonds are issued.

Yield: The rate of annual income return on an investment, expressed as a percentage. Income yield is obtained by dividing the current dollar income by the current market price for the security. Net yield or yield to maturity is the current income yield minus a premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the purchase date to the maturity date.

Frequently Asked Questions

What is CalTRUST and how is it structured?

CalTRUST is a Joint Powers Authority created by public agencies to provide a convenient method for public agencies to pool their assets for investment purposes. CalTRUST is governed by a Board of Trustees made up of experienced local agency treasurers and investment officers. The Board sets overall policies for the program and selects and supervises the activities of the investment manager and other agents.

What entities are permitted to participate in CalTRUST?

As a practical matter, any public agency that is authorized to join a Joint Powers Authority can participate in CalTRUST. The specific sections of the California Government Code that govern participation in CalTRUST (Sections 6500 and 6509.7), provide that the following types of agencies may participate:

> *"the federal government or any federal department or agency, this state, another state or any state department or agency, a county, county board of education, county superintendent of schools, city, public corporation, public district, or regional transportation commission of the State of California or another state, or any joint powers authority formed pursuant to this article [Article 1 of the Joint Exercise of Powers Act] by any of these agencies," (Section 6500), and "a nonprofit corporation whose membership is confined to public agencies or public officialsr"* (Section 6509.7).

If you have any questions about participation, please contact CalTRUST at:
by phone: 888-422-8778
by e-mail: caltrust@wellscap.com
on the web: www.caltrust.org

How does an agency initiate participation in CalTRUST?

Legislation enacted in 2004 (AB 969 - Chapter 470, Statutes of 2004) simplified participation in CalTRUST. AB 969 authorizes local agencies to directly invest in shares issued by JPA pooled investment programs. As a result, agencies interested in investing through the CalTRUST Program no longer need to adopt a resolution to formally become a member of the CalTRUST Joint Powers Authority.

Opening an account in the CalTRUST program is quite simple; just carefully read the Information Statement, the Joint Powers Agreement, the CalTRUST Investment Policy, and complete the Account Registration Form and Participation Agreement.

What account options does CalTRUST offer?

CalTRUST offers four account options – Money Market, Short-Term and Medium-Term Accounts, and a soon-to-be-opened Long-Term Account. Agencies can select account options that match their investment time horizon and cash flow needs; and easily reallocate among accounts as circumstances warrant.

All CalTRUST accounts comply with the limits and restrictions placed on agency investments by the California Government Code; no leverage is permitted in any of the CalTRUST accounts.

What is the minimum amount that an agency can invest in the CalTRUST program?

- Board of Trustees
- Board Agendas & Minutes
- Investment Philosophy
- Portfolio & Performance
- Frequently Asked Questions
- Participant Listing

Calendar & Holiday Schedule

April 06, 2012
Easter Observed
Closed for Trading

April 25, 2012
CalTRUST Board Meeting
Monterey County

May 25, 2012
Memorial Day Observed
Early Closure - 10:00 am PST

May 28, 2012
Memorial Day
Closed for Trading

July 03, 2012
Independence Day Observed
Early Closure - 10:00 am PST

The CalTRUST Board of Trustees has established $250,000 as the minimum investment in one or more of the CalTRUST accounts. The Board also has authorized the CalTRUST Program Administrator to waive this minimum investment requirement in its discretion.

What is the maximum amount that an agency can invest in the CalTRUST program?

There is no maximum investment amount for any of the CalTRUST accounts.

Is there a limit on the number of accounts that an agency can maintain?

There is no limit on the number of accounts that an agency can maintain. This provides additional flexibility to agencies, allowing them to tailor the number and types of accounts to best suit their local needs and priorities. For example, an agency may want or need to segregate its enterprise-type assets from its general operating reserves. CalTRUST provides the flexibility to meet this local preference.

What are the principal risks of investing in CalTRUST?

Investments in CalTRUST, like investments in other types of bond funds, are subject primarily to interest rate risk and credit risk.

Interest rate risk is the potential for a decline in bond prices -- and hence the market value of bonds in the portfolio -- due to rising market interest rates. In general, bond prices vary inversely with interest rates. The change in a bond's price depends on several factors, including its maturity date. In general, bonds with longer maturities are more sensitive to changes in interest rates than bonds with shorter maturities. Similarly, bond funds with longer average portfolio maturities, such as the CalTRUST Medium-Term and Long-Term Accounts, will be more sensitive to interest rate changes than those with shorter average portfolio maturities, such as the CalTRUST Short-Term account.

Credit risk is the possibility that a deterioration in the underlying creditworthiness of an issuer will adversely affect the value of its outstanding bonds or that a bond issuer will fail to make timely payments of interest or principal on its outstanding bonds (default). A decline in a bond issuer's credit rating, or creditworthiness, may cause prices for its outstanding bonds to decline.

Similar to shares in a bond mutual fund, the value of CalTRUST shares will change with market conditions, as will the value of an agency's investment account. An agency could lose money on an investment in a CalTRUST account or an investment in a CalTRUST account could underperform other investments.

What is the cost of transferring funds between the Short-Term Account and the Medium-Term Account or vice-versa?

There is no cost to transfer funds from any CalTRUST account to another CalTRUST account. In addition, there is no cost for wiring funds into or out of any of the CalTRUST accounts (although a local agency's bank may charge a nominal fee for sending and receiving wires).

How does an agency monitor its investments in CalTRUST?

All participating agencies have 24-hour, password-protected online access to their individual account information at www.caltrust.org. The CalTRUST website shows the current value of CalTRUST shares, as well as additional relevant information regarding the underlying pools of securities in the CalTRUST accounts. Month-end statements can be downloaded directly from the CalTRUST website, or an agency can opt to receive printed monthly statements.

What are the costs of participating in CalTRUST?

There are no out-of-pocket costs for an agency to invest funds in CalTRUST. As with other programs, such as the Local Agency Investment Fund, managed by the State Treasurer's Office, all expenses associated with participation in CalTRUST are deducted from the yield.

The current total annual operating expense of the CalTRUST Heritage Money Market Account is 13 basis points (0.13%) of the average daily net assets of the account.

For the Short-Term Account, current total operating expenses are 14 basis points (0.14%) of the average daily net assets of the Account. These expenses drop as

the total size of the Account increases; to 13 basis points for assets between $500 million and $1 billion and to 12 basis points for assets over $1 billion.

Total annual operating expenses for the Medium-Term and Long-Term Accounts are 24 basis points (0.24%). Again, as the size of the Accounts increase these expenses drop; to 22 basis points for assets between $500 million and $1 billion, and to 20 basis points for assets over $1 billion.

Expenses for each of the CalTRUST Funds are deducted from the net assets of the Funds on a monthly basis.

How does recently enacted legislation affect the CalTRUST Program?

Legislation signed by Governor Schwarzenegger in September 2004 clarified the authority for local agencies to participate in Joint Powers Authority investment pools, and makes it easier to participate in CalTRUST.

Chapter 470, Statutes of 2004 (Assembly Bill 969 – Correa) revised the provisions of California Government Code Section 53601 to provide an explicit grant of authority for local agencies to invest in shares of beneficial interest issued by a Joint Powers Authority, provided the JPA:

1. Invests only in securities and obligations eligible for local agency investment directly; and
2. Retains an investment adviser that
    a. Is registered with the Securities and Exchange Commission or is exempt from registration;
    b. Has not less than five years experience investing in securities and obligations eligible for local agency investment; and
    c. Has at least $500 million in assets under management.

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Participating Agencies

Counties:
• Butte County*
• Contra Costa County*
• Riverside County*
• Solano County*
• Sonoma County*
• Yuba County*
• Alameda County
• Santa Barbara County*
• San Diego County*
• Imperial County
• Monterey County*
• Madera County
• Del Norte County
• Mono County
• Wells Fargo Bank, as Trustee for County of Mendocino TRAN
• Wells Fargo Bank, as Trustee for County of Tulare TRAN

Cities:
• Chino*
• Chino Redevelopment Agency*
• National City*
• Riverside
• Pinole*
• Pinole Redevelopment Agency*
• Oakley
• Richmond
• Poway
• Albany
• Hercules
• Rancho Cucamonga
• Rancho Cucamonga Redevelopment Agency
• Chula Vista
• San Bernardino
• Sacramento*
• Sacramento Housing and Redevelopment Agency
• Wells Fargo Bank, as Trustee for City of Stockton TRAN
• City of Larkspur
• City of El Paso de Robles
• City of El Centro

Water Districts/Special Districts:
• Rio Alto Water District*
• Central California Irrigation District
• West County Wastewater District (Contra Costa County)
• Dudley Ridge Water District
• San Luis & Delta-Mendota Water Authority
• Westlands Water District*
• Eastern Municipal Water District
• Chino Basin Water Conservation District
• West Valley Mosquito and Vector Control District*
• Water Facilities Authority*
• Westlands Water District - 2007A Reserve
• San Luis & Delta-Mendota Water Authority
• Contra Costa County – Central Sanitary District
• Kings River Conservation District

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- Kinneloa Irrigation District
- San Mateo Transit Authority*
- Los Angeles County Metropolitan Transportation Agency
- Inland Empire Utilities Agency
- Helendale Community Services District
- Consolidated Central Valley Table Grape Pest & Disease Control District
- San Diego Unified Port District
- Monterey Peninsula Regional Park District
- Regional Government Services Authority
- Santa Ana Watershed Project Authority
- Midway City Sanitary District*
- Fallbrook Healthcare District
- Westlands Water District
- Santa Lucia Community Services District
- Yorba Linda Water District
- West Valley Water District
- South Feather Water and Power Agency

Other:
- ABAG Finance Authority
- National Homebuyers Fund, Inc.
- California State Association of Counties
- CPS Human Resource Services
- CRHMFA Homebuyers Fund
- CSAC Finance Corporation
- League of California Cities
- Regional Council of Rural Counties
- ALPHA Fund*
- CRHMFA Homebuyers Fund – Building Account
- CSU – Risk Management Authority
- National Association of Counties (NACO)
- California Special Districts Association (CSDA)
- CSDA Finance Corporation
- CSAC Public Funds
- Association of California Water Agencies (ACWA)
- ACWA Health Benefits Authority

Community Colleges
- College of the Sequoias

*JPA Member

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