Staff Report

November 13, 2012

TO:	Honorable Mayor and Town Council
FROM:	Roger Carroll, Treasurer/Finance Director
DATE:	November 2, 2012
RE:	Adoption of Investment Policy

RECOMMENDED ACTION:

Adopt resolution.

ISSUE STATEMENT AND DISCUSSION:

Each year the Council is required to review and adopt the Town's investment policy. While this can be done at any time during the year, it has typically been done in November.

The Town's Investment Policy is in compliance with all laws and regulations.

There are two changes from the prior year:

1. Investment Policy, Section VII. Diversification: The Local Agency Investment Fund (LAIF) maximum balance was raised by the State a number of years ago from $20,000,000 to $50,000,000. Since the Town's Investment Policy allows 100% investment in the LAIF, the maximum in the Policy has been changed to agree.
2. During 2012, the Treasurer changed safekeeping institutions. Investment Internal Controls, Section 3.Custodial Safekeeping and Trade Settlement has been changed to list the current information.

POLICY AND/OR FINANCIAL IMPLICATIONS:

None.

Attachments:

Town of Loomis Investment Policy
Town of Loomis Investment Internal Controls and Guidelines
Resolution

Town of Loomis

Investment Policy

Prepared by:

Roger Carroll
Town Treasurer

I. POLICY

It is the policy of the Town of Loomis (the Town) 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 the Town and conforming to all State and Town statutes governing the investment of public funds.

II. SCOPE

The investment policy applies to all financial assets of the Town as accounted for in the Annual Financial Report. This policy is applicable, but not limited, to all funds listed below:

1. General Fund
2. Special Revenue Funds
3. Capital Project Funds
4. Trust Funds
5. Any New Funds created by the Town Council unless specifically exempted

III. PRUDENCE

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, direction 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.

However, it is realized that market prices of securities will vary depending on economic and interest rate conditions at any point in time. It is further recognized that in a well-diversified investment portfolio, occasional measured losses are inevitable due to economic, bond market, or individual security credit analysis. These occasional losses must be considered within the context of the overall investment program objectives and the resultant long-term rate of return.

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

IV. OBJECTIVE

The primary objectives, in priority order, of the Town's investment activities shall be:

1. Safety

Safety of principal is the foremost objective of the Town's investment program. Investments of the Town shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the Town will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions.

2. Liquidity

The Town's investment portfolio will remain sufficiently liquid to enable the Town to meet all operating requirements which might be reasonably anticipated.

3. Return on Investment

The Town's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the Town's investment risk constraints and cash flow characteristics of the portfolio.

V. DELEGATION OF AUTHORITY

Authority to manage the Town's investment program is derived from the California Government Code section 41000 et al. Management responsibility for the investment program is hereby delegated to the Town Treasurer who shall be responsible for all transactions undertaken. In the Town Treasurer's absence, the Finance Director and/or the Town Manager are authorized to take action to initiate investment transactions. The Treasure shall establish a system of controls to regulate the activities of the Finance Director and/or the Town Manager, and their procedures in the absence of the Treasurer.

The Treasurer shall establish written policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, PSA repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer.

VI. ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Additionally, the Town Treasurer and investment officials are required to annually file applicable financial disclosures as required by the Fair Political Practices Commission (FPPC).

VII. AUTHORIZED DEALERS AND INSTITUTIONS

The Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained for approved security broker/dealers selected by credit worthiness that are authorized to provide investment services in the State of California. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by state laws. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the treasurer with the following: proof of National Association of Security Dealers certification, proof of state registration and certification of having read the Town's investment policy and depository contracts.

VIII. AUTHORIZED AND SUITABLE INVESTMENTS

Investment of Town funds is governed by the California Government Code Sections 53600 ET seq. Within the context of the limitations, the following investments are authorized, as further limited herein:

1. United States Treasury Bills, Bonds, and Notes or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation on the amount of the portfolio that can be invested in this category, although a five-year maturity limitation is applicable.

2. Obligations issued by the Government National Mortgage Association (GNMA), the Federal Farm Credit System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal National Mortgage Association (FNMA), the Student Loan Marketing Association (SLMA) and the Federal Home Loan Mortgage Association (FHLMC). There is no percentage limitation on the portfolio for these securities, although a five-year maturity limitation is applicable.

Investments detailed in items 3 through 10 are further restricted. The percentage of the cost value of the portfolio in any one issuer name shall not exceed a maximum percentage of 15%. The total value invested in any one issuer shall not exceed 5% of the issuer net worth. A five-year maximum maturity is applicable unless further restricted by this policy.

3. Bonds issued by the Town of Loomis. This policy allows for a maximum of 5% of the cost value of the portfolio to be available to be issued as bond financing for improvement districts within the Town limits.

4. Treasury notes, bonds or certificates of indebtedness of the States of the United States of America and their political subdivisions. Purchases may not exceed 50% of the cost value of the portfolio.

5. Bills of exchange or time drafts drawn on and accepted by commercial banks, otherwise known as banker's acceptances. Bankers acceptances purchased may not exceed 180 days to maturity or 40% of the cost value of the portfolio.

6. Commercial paper rated A or higher by Moody's Investor Services or by Standard and Poor's, and issued by domestic corporations having assets in excess of $500,000,000.00 and having an A or better rating on its long term debentures as provided by Moody's or Standard and Poor's. Purchase of eligible commercial paper may not exceed 180 days to maturity nor represent more than 10% of the outstanding paper of the issuing corporation. Purchases of commercial paper may not exceed 15% of the cost value of the portfolio.

7. Negotiable certificates of deposit issued by nationally or state chartered banks or state or federal savings institutions. Purchases of negotiable certificates of deposit may not exceed 30% of the total portfolio.

8. Local Agency Investment Fund (LAIF) which is a State of California managed investment pool may be used up to the maximum permitted by California State Law. See section IX, below for additional requirements of Investment Pools.

9. Money Market Mutual Funds may be used for investment of excess funds. See section IX, below for additional requirements of Mutual Funds.

10. Time Deposits, non-negotiable and collateralized in accordance with California Government Code, may be purchased through banks or savings and loan associations. Since time deposits are not liquid, no more than 25% of the investment portfolio may be invested in this type of investment.

11. Medium Term Corporate Notes, with a maximum maturity of fives years may be purchased. Securities eligible for investment shall be rated "A" or higher by Moody's or Standard and Poor's rating services. Purchase of medium term notes may not exceed 30% of the market value of the portfolio and no more than 15% of the market value may be invested in notes issued by one corporation. Commercial paper holdings should also be included when calculating the 15% limitation.

Ineligible investments are those that are not described herein, including, but not limited to: Repurchase (and reverse repurchase) agreements, common stocks and long-term (over five year maturity) notes and bonds are prohibited from use in this portfolio unless specifically allowed both by state law and Town Council approval. It is noted that special circumstances may arise where these methods of investment may become necessary. Should this become necessary, the Town Council will be asked to take the appropriate action to ratify the means of investment necessary, provided that it is allowable by California Government Code.

Any State of California legislative actions that further restrict allowable maturities, investment type, or percentage allocations will supersede any of the material presented

herein. In this case, the applicable law will become part and parcel of this investment policy.

IX. INVESTMENT POOLS/MUTUAL FUNDS

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed which will answer the following general questions:

- A description of eligible investment securities, and a written statement of investment policy and objectives. The Town's funds will only be invested in pools and funds which invest in compliance with State Government Code sections 53600 ET seq.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- Are reserves, retained earnings, etc. utilized by the pool/fund?
- A fee schedule and when and how it is assessed.
- Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?

X. COLLATERALIZATION

Collateral is required for investments in certificates of deposit, repurchase agreements, and reverse repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be al least 102% of market value of principal and accrued interest.

In order to conform with the provisions of the Federal Bankruptcy Code which provides for liquidation of securities held as collateral, the only securities acceptable as collateral shall be certificates of deposit, commercial paper, eligible bankers acceptances, medium term notes or securities that are the direct obligations of, or are fully guaranteed as to the principal and interest by the United States of any agency of the United States.

XI. SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered into by the Town shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

XII. DIVERSIFICATION

The Town will diversify its investments by security type and institution. With the exception of U.S. Treasury securities, U.S. Government agency securities, and authorized pools, no more than 50% of the Town's total investment portfolio will be invested in a single security type or with a single financial institution.

The following are maximum percentage limitations by instrument, which shall be used for the Town's total portfolio:

Investment Type	Percentage
Local Agency Investment Funds	$50,000,000 per account
US Treasury Bonds/Bills/Notes	100%
US Government Agency Bonds	100%
Banker's Acceptances	40%
Commercial Paper	15%
Negotiable Certificates of Deposit	30%
Time Certificates of Deposit	25%
Medium Term Notes	30%
Treasuries and Gov. Agencies, other than Federal	50%

XIII. MAXIMUM MATURITIES

To the extent possible, the Town will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Town will not directly invest in securities maturing more that five years from the date of purchase. Reserve funds may be invested in securities exceeding five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

Not precluding the above, maximum maturities for investments are as follows:

Investment	Time
US Treasury and Agency Securities	5 Years
Bonds Issued by Local Agencies	5 Years
Registered State Warrants & Notes	5 Years
Banker's Acceptances	180 Days
Commercial Paper	180 Days
Negotiable Certificates of Deposit	5 Years
Medium Term Corporate Notes	5 Years
Collateralized Mortgage Obligations	5 Years

XIV. INTERNAL CONTROL

The Treasurer shall establish an annual process of independent review by and external auditor. This review will provide internal control by assuring compliance with policies and procedures.

XV. 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.

Market Yield (Benchmark): The Town uses an active investment strategy. Given this strategy, the basis used by the Treasurer to determine whether market yield is being achieved shall be to compare actual yield to a comparable benchmark, in this case the two year U.S. Treasury note.

XVI. REPORTING

The Treasurer shall provide the Town Council with monthly investment reports which provide a clear picture of the status of the current investment portfolio. The management report should include comments on the fixed income markets and economic conditions, discussions regarding restrictions on percentage of investment by categories, possible changes in the portfolio structure going forward and thoughts on investment strategies. Schedules in the quarterly report should include the following

1. A listing of individual securities held at the end of the reporting period by authorized investment category.
2. Average life and final maturity of all investments listed.
3. Coupon, discount or earnings rate.
4. Par value, Amortized Book Value and Market Value.
5. Percentage of the Portfolio represented by each investment category.

XVII. INVESTMENT POLICY ADOPTION

The Town's investment policy shall be adopted by resolution of the Town Council. The policy shall be reviewed annually by the Town Council and any modifications made thereto must be approved by the Town Council.

GLOSSARY OF TERMS

Accrued Interest - Interest accumulated on a security since the issue date or the last coupon payment. The buyer of the security pays the market price plus accrued interest.

Agencies - Agencies of the Federal government set up to supply credit to various classes of institutions (i.e. S&L's, small business firms, students, farmers, housing agencies, etc.)

Asked – The price at which securities are offered.

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

Benchmark – A comparative base for measuring the performance or risk tolerance fo the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Basis Point - One basis point is one hundredth of one percent (.01).

Bid – The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

Bond - A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Book Value - The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

Broker - One who brings buyers and sellers together and is compensated for his service.

Callable - Securities that the issuer has the right to redeem prior to maturity.

Certificate of Deposit (CD) - A deposit insured up to $100,000 by the FDIC at a set rate for a specified period of time. Large denominations are typically negotiable.

Collateral - Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public monies.

Commercial Paper - An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

Corporate Medium Term Note - A security issued by a corporation doing business in the U.S. with a maturity not to exceed five years.

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

Current Maturity - Amount of time left to the maturity of an obligation. (For example, a one-year bill issued nine months ago has a current maturity of three months.)

Current Yield - The interest paid on an investment expressed as a percentage of the current price of the security.

Dealer - Someone who acts as a principal in all transactions, including buying and selling from his/her 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 securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for securities.

Derivatives – (1) Financial instruments whose return profile is linked to, or derived from , the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

Discount – The difference between the cost price 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 at a discount and redeemed at maturity for full face value, e.g. U.S. Treasury Bills.

Diversification - Dividing investment funds among a variety of securities offering independent returns.

Federal Credit Agencies – Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

Federal Deposit Insurance Corporation (FDIC) – a federal agency that insures bank deposits, currently up to $100,000 per deposit.

Federal Funds Rate – The rate of interest at which Federal funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

Federal Home Loan Banks (FHLB) – Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district bank.

Federal National Mortgage Association (FNMA) – FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

Federal Open Market Committee (FOMC) – Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

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.

Face Value - The principal amount owed on a debt instrument. It is the amount on which interest is computed and represents the amount that the issuer promises to pay at maturity.

Government National Mortgage Association (GNMA or Ginnie Mae) – Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FmHa mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

Liquidity - An asset that can easily and rapidly be converted into cash without significant loss of value.

Local Agency Investment Fund (LAIF) - A voluntary investment fund open to government entities in California that is managed by the State Treasurer's office.

Mark to Market - Adjustment of an account or portfolio to reflect actual market price rather than book price, purchase price or some other valuation.

Market Value - The price at which a security is trading and presumably could be purchased or sold at a particular point in time.

Master Repurchase Agreement – A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of a default by the seller borrower.

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

Money Market - The market in which short-term debt instruments (bills, commercial paper, bankers acceptances, etc.) are issued and traded.

Mutual Funds - An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments.

Note - A written promise to pay a specified amount to a certain entity on demand or on a specified date.

Offer – The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

Open Market Operations – Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit: sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

Par Value - The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in $1,000 increments per bond.

Portfolio - Combined holding of more than one stock, bond, commodity, real estate investment, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

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 Commission (SEC) registered securities Broker/dealers, banks, and a few unregulated firms.

Principal - The face value or par value of a debt instrument, or the amount of capital invested in a given security.

Prudent Person Standard - A standard of conduct where a person acts with care, skill, prudence, and diligence when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds. The test of whether the standard is being met is if a prudent person acting in a similar situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

Qualified Public Depositories – A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

Rate of Return – The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

Rating - The designation used by investors' services to rate the quality of a security's creditworthiness. Moody's ratings range from the highest Aaa, down through Aa, A, Baa, Ba, B, etc., while Standard and Poor's ratings range from the highest, AAA, down through AA, A, BBB, BB, B, etc.

Repurchase Agreements - An agreement of one party to sell securities to a second party and simultaneous agreement by the first party to repurchase the securities at a specified price from the second party on demand or at a specified date.

Safekeeping – A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

Secondary Market – A market made for the purchase and sale of outstanding issues following the initial distribution.

Securities and Exchange Commission (SEC) - The federal agency responsible for supervising and regulating the securities industry.

SEC Rule 15C3-1 – See Uniform Net Capital Rule.

Structured Notes – Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

Swap - The sale of one issue and the simultaneous purchase of another for some perceived advantage.

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

Treasury Bonds – Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

Treasury Notes – Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

Underwriter - A dealer which purchases a new issue of municipal securities for resale.

U.S. Government Obligations - Debt obligations of the United States Government sold by the Treasury Department in the forms of Bills, Notes and Bonds. Bills are short-term obligations that mature in 1 year or less and are sold on the basis of a rate of discount. Notes are obligations which mature between 1 year and 10 years. Bonds are long-term obligations which generally mature in 10 years or more.

Weighted Average Maturity (WAM) - The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

Yield - The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

Yield Curve - A graphic representation that shows the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity.

Yield to Maturity - The rate of income on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

RELATED GOVERNMENT CODES

GOV §16429.1 There is in the State Treasury the Local Agency Investment Fund, which fund is hereby created. Notwithstanding Section 13340, all money in the fund is hereby appropriated without regard to fiscal years to carry out the purpose of this section. The Controller shall maintain a separate account for each governmental unit having deposits in this fund.

Notwithstanding any other provisions of law, a local governmental official, with the consent of the governing body of that agency, having money in its treasury not required for immediate needs, may remit the money to the Treasurer for deposit in the Local Agency Investment Fund for the purpose of investment.

GOV § 53601. The legislative body of a local agency having money in a sinking fund of, or surplus money in, its treasury not required for immediate needs of the local agency may invest any portion of the money that it deems wise or expedient in those investments set forth below. A local agency purchasing or obtaining any securities prescribed in this section, in a negotiable, bearer, registered or non-registered format shall require delivery of the securities to the local agency, including those purchased for the agency by financial advisors, consultants, or managers using the agency's fund, by book entry, physical delivery, or by third party custodial agreement. The transfer of securities to the counterparty bank's customer book entry account may be used for book entry delivery. For purposes of this section "counterparty" means the other party to the transaction. A counterparty bank's trust department or separate safekeeping department may be used for the physical delivery of the security if the security is held in the name of the local agency. Where this section does not specify the limitation on the term or remaining maturity at the time of the investment, no investment may be made in any security other than a security underlying a repurchase or reverse repurchase agreement authorized by this section, that at the time of the investment has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or as part of an investment program approved by the legislative body no less than three months prior to the investment:

(a) Bonds issued by the local agency, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.

(b) United States Treasury notes, bonds, bills, 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.

(c) Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

(d) Bonds, notes, warrants, or other evidences of indebtedness of any local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

(e) Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Home Loan Bank Board, the Tennessee Valley Authority, or in obligations, participations or other instruments of, or issued by, or fully guaranteed

as to principal and interest by, the Federal National Mortgage Association; or in guaranteed portions of Small Business Administration notes; or in obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise.

(f) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances. Purchases of bankers acceptances may not exceed 270 days maturity or 40 percent of the agency's surplus money that may be invested pursuant to this section. However, no more than 30 percent of the agency's surplus funds may be invested in the bankers acceptances of any one commercial bank pursuant to this section.

This subdivision does not preclude a municipal utility district from investing any surplus money in its treasury in any manner authorized by the Municipal Utility District Act (Division 6 (commencing with Section 11501) of the Public Utilities Code).

(g) Commercial paper 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 having an "A" or higher rating for the issuer's debt, other than commercial paper, if any, as provided for by Moody's 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 percent of the outstanding paper of an issuing corporation. Purchases of commercial paper may not exceed 15 percent of the agency's surplus money that may be invested pursuant to this section. An additional 15 percent, or a total of 30 percent of the agency's surplus money may be invested pursuant to this subdivision. The additional 15 percent may be so invested only if the dollar-weighted average maturity of the entire amount does not exceed 31 days. "Dollar-weighted average maturity" means the sum of the amount of each outstanding commercial paper investment multiplied by the number of days to maturity, divided by the total amount of outstanding commercial paper.

(h) Negotiable certificates of deposit issued by a nationally or state-chartered bank or a state or federal association (as defined by Section 5102 of the Financial Code) or by a state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit may not exceed 30 percent of the agency's surplus money which may be invested pursuant to this section. For purposes of this section, negotiable certificates of deposit do not come within Article 2 (commencing with Section 53630) except that the amount so invested shall be subject to the limitations of Section 53638.

(i)(1) Investments in repurchase agreements or reverse repurchase agreements of any securities authorized by this section, as long as the agreements are subject to this subdivision, including the delivery requirements specified in this section.

(2) Investments in repurchase agreements may be made, on any investment authorized in this section, when the term of the agreement does not exceed one year. The market value of securities that underlay a repurchased agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly.

(3) Reverse repurchase agreements may be utilized only when either of the following conditions are met:

> (A) The security was owned or specifically committed to purchase, by the local agency, prior to December 31, 1994, and was sold using a reverse repurchase agreement on December 31, 1994.
>
> (B) The security to be sold on reverse repurchase agreement has been owned and fully

paid for by the local agency for a minimum of 30 days prior to sale; the total of all reverse repurchase agreements on investments owned by the local agency not purchased or committed to purchase, prior to December 31, 1994, does not exceed 20 percent of the base value of the portfolio; and the agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement and the final maturity date of the same security.

(4) After December 31, 1994, a reverse repurchase agreement may not be entered into with securities not sold on a reverse repurchase agreement and purchased, or committed to purchase, prior to that date, as a means of financing or paying for the security sold on a reverse repurchase agreement, but may only be entered into with securities owned and previously paid for, for a minimum of 30 days prior to the settlement of the reverse repurchase agreement, in order to supplement the yield on securities owned and previously paid for or to provide funds for the immediate payment of a local agency obligation. Funds obtained or funds within the pool of an equivalent amount to that obtained from selling a security to a counterparty by way of a reverse repurchase agreement, on securities originally purchased subsequent to December 31, 1994, shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement, unless the reverse repurchase agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement and the final maturity date of the same security. Reverse repurchase agreements specified in subparagraph (B) of paragraph (3) may not be entered into unless the percentage restrictions specified in that subparagraph are met, including the total of any reverse repurchase agreements specified in subparagraph (A) of paragraph (3).

(5) Investments in reverse repurchase agreements or similar investments in which the local agency sells securities prior to purchase with a simultaneous agreement to repurchase the security, may only be made upon prior approval of the governing body of the local agency and shall only be made with primary dealers of the Federal Reserve Bank of New York.

(6) (A) " Repurchase agreement" means a purchase of securities by the local agency pursuant to an agreement by which the counterparty seller will repurchase the securities on or before a specified date and for a specified amount and the counterparty will deliver the underlying securities to the local agency by book entry, physical delivery, or by third party custodial agreement. The transfer of underlying securities to the counterparty bank's customer book-entry account may be used for book-entry delivery.

(B) "Securities," for purpose of repurchase under this subdivision, means securities of the same issuer, description, issue date, and maturity.

(C) "Reverse repurchase agreement" means a sale of securities by the local agency pursuant to an agreement by which the local agency will repurchase the securities on or before a specified date, and includes other comparable agreements.

(D) For purpose of this section, the base value of the local agency's pool portfolio shall be that dollar amount obtained by totaling all cash balances place in the pool by all pool participants, excluding any amounts obtained through selling securities by way of reverse repurchase agreements or other similar borrowing methods.

(E) For purposes of this section, the spread is the difference between the cost of funds obtained using the reverse repurchase agreement and the earnings obtained on the reinvestment of the funds.

(j) Medium-term notes of a 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 under this subdivision shall be rated in a rating category of "A" or its equivalent or better by a nationally recognized rating service. Purchases of medium-term notes may not exceed 30 percent of the agency's surplus money which may be invested pursuant to this section.

(k)(1) Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations as authorized by subdivisions (a) to (j), inclusive, or subdivision (m) or (n) and that comply with the investment restrictions of this article and Article 2 (commencing with Section 53630). However, notwithstanding these restrictions, a counterparty to a reverse repurchase agreement is not required to be a primary dealer of the Federal Reserve Bank of New York if the company's board of directors finds that the counterparty presents a minimal risk of default, and the value of the securities underlying a repurchase agreement may be 100 percent of the sales price if the securities are marked to market daily.

(2) 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.).

(3) If investment is in shares issued pursuant to paragraph (1), the company shall have met either of the following criteria:

(A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations.

(B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by subdivisions (a) to (j), inclusive, or subdivision (m) or (n) and with assets under management in excess of five hundred million dollars ($500,000,000).

(4) If investment is in shares issued pursuant to paragraph (2), the company shall have met either of the following criteria:

(A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations.

(B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars ($500,000,000).

(5) The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include any commission that the companies may charge and shall not exceed 20 percent of the agency's surplus money that may be invested pursuant to this section. However, no more than 10 percent of the agency's surplus funds may be invested in shares of beneficial interest of any one mutual fund pursuant to paragraph (1).

(l) Notwithstanding anything to the contrary contained in this section, Section 53635, or any other provision of law, moneys held by trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency , or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

(m) Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed by Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank which is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.

(n) any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond of a maximum of five years maturity. Securities eligible for investment under this subdivision shall be issued by an issuer having an "A" or higher rating for the issuer's debt as provided by a nationally recognized rating service and rated in a rating category of "AA" or its equivalent or better by a nationally recognized rating service. Purchase of securities authorized by this subdivision may not exceed 20 percent of the agency's surplus money that may be invested pursuant to this section. [As affected by 1996 legislation]

GOV § 53631.5. (a) A local agency shall not invest any funds pursuant to this article in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages.

(b) A local agency shall not invest any funds pursuant to this article in any security that could result in zero interest accrual if held to maturity. However, a local agency may hold prohibited instruments until their maturity dates. The limitation in this subdivision shall not apply to local agency investments in shares of beneficial interest issued by diversified management companies registered under the Investment Company Act of 1940 (15 U.S. SEC. 80a-1, and following) that are authorized for investment pursuant to subdivision (k) of Section 53601.[As affected by 1995 legislation]

The Town of Loomis
Internal Controls and Guidelines
November 2, 2012

1. Delegation of Authority

The Loomis Town Council hereby delegates its authority to invest funds of the Town for a one-year period to the Treasurer who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires. Subject to review, the Loomis Town Council may renew the delegation of Authority each year. The Treasurer may chose to delegate with the Council's approval the day-to-day placement of investments to an investment adviser via a written agreement between the Town and the Adviser. The Adviser shall make all investment decisions and transactions in strict accordance with state law and the Authority's Investment Policy.

The Treasurer shall also be responsible for ensuring that all investment transactions comply with the Town's Investment Policy and for establishing internal controls. The internal controls shall be designed to regulate the Town's investment activities, including the activities of any subordinate officials and advisors acting on behalf of the Town, and to prevent losses of public funds arising from fraud, error, misrepresentations of third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Town. The most important controls are: control of collusion; separation of duties; separation of transaction Authority from accounting and bookkeeping; custodial safekeeping; delegation of authority; limitations regarding securities losses and remedial action; written confirmation of telephone transactions; minimizing the number of authorized investment officials; documentation of transactions and strategies; and annual review of controls by the Treasurer.

2. Separation of Duties

When broker confirmations and monthly custodian bank statements are received, they shall be reconciled to internal documentation promptly upon receipt. The staff member who performs the reconciliation shall not be the same as the staff member who executes investment transactions.

3. Custodial Safekeeping and Trade Settlement

Safekeeping

All securities purchased shall be delivered to the Town's custodial bank. All securities sold shall be delivered directly from the Town's custodial bank to the counter party's custodial bank.

Trade Settlement

All investment transactions will be settled "delivery-vs.-payment" (DVP) in accordance with industry standards. Staff members shall not handle cash or securities in conjunction with the investment of Town's funds.

The Treasurer shall coordinate the settlement of all transactions with the Authority's custodian bank, Union Bank of California, and send all necessary paperwork to:

Gaby Rodriguez
Bank of New York/Mellon
400 South Hope Street
Los Angeles, CA 90071
Direct: (213) 630-6461
Fax: (213) 630-6165
gaby.rodriguez@bnymellon
.com

Transfer Funds or Invest Proceeds
If the Town is purchasing a security, it may be necessary to transfer funds from another bank account or a LAIF account. If the Town is selling a security or a security matures, it may be necessary to invest the proceeds in another security, to transfer funds to another bank account or to a LAIF account. The Town's Treasurer will initiate necessary transfer of funds for trade settlements.

4. Competitive Bid

- It is preferred that all trades are executed competitively with a minimum of three price quotes to insure best execution of the transaction.
- Competitive quotes, however, are not necessary for new issues when they are offered during the initial (primary) selling period and quoted at the same price (usually par) by all broker/dealers.
- These guidelines recognize that it is not always possible to locate three broker/dealers who offer exactly the same security. This is particularly true in the case of secondary market agency securities, corporate bonds, and some money market securities. In those situations, comparable securities will be used to determine the current value for a security being considered for purchase.

5. Trade Documentation

The Town's Treasurer shall reconcile the monthly investment transaction reports with the transaction report received from the Custodian.

Trade Ticket
The Broker/Dealer will prepare a trade ticket with all of the information pertinent to the purchase or sale of the investment and fax or e-mail it to the Town's Treasurer.

Broker Confirmation
A confirmation will be issued by the broker/dealer for each purchase or sale transaction. The information on the confirmation will be checked and reconciled to the trade ticket from the Broker/Dealer, and the Town's copy of the confirmation should be attached to the trade ticket.

Monthly Custody Statement
Union Bank will issue a Monthly Custody Statement for all of the securities purchased and delivered to and held in the Town's custody account. The information on the Monthly Custody Statement will be checked and reconciled to the Town's Transaction and Holdings report.

Verify the Documentation of the Transaction
In order to assure internal controls, the documentation of investment transactions must be carefully checked. The transaction and security information on the Broker/Dealer's Trade ticket, the broker's Trade Confirmation, and Union Bank's Monthly Custody Statement should be carefully cross checked to be sure that all information reconciles. If any trade document does not reconcile with what is known as the correct information regarding a trade, then the party who

issued that document must be contacted to correct the erroneous information.

6. Authorized Financial Dealers and Institutions

1. The Town's Treasurer shall determine which financial institutions are authorized to provide investment services to the Town. Institutions eligible to transact investment business with the Authority include:

   a. Primary government dealers as designated by the Federal Reserve Bank;

   b. Non-primary and regional dealers;

   c. Nationally or state-chartered banks;

   d. The Federal Reserve Bank; and

   e. Direct issuers of securities eligible for purchase by the Authority.

2. Selection of financial institutions and broker/dealers authorized to engage in transactions with the Town shall be at the sole discretion of the Town.

3. All financial institutions which desire to become qualified bidders for investment transactions must supply the Town Treasurer with a statement certifying that the institution has reviewed the California Government Code Section 53600 et seq. and the Town's Investment Policy and that all securities offered to the Authority shall comply fully and in every instance with all provisions of the Code and with this Investment Policy.

4. Public deposits shall be made only in qualified public depositories within the State of California as established by State law. Deposits shall be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, shall be collateralized with securities in accordance with State law.

5. Selection of broker/dealers used by the Town shall be at the sole discretion of the Town.

7. Mitigating Credit and Market Risk in the Portfolio

The Authority will mitigate credit risk in the portfolio by following the guidelines described in the Investment Policy regarding diversification, maximum percentages of any single issuer and procedures for credit rating downgrades. Market risk will be mitigated by following the guidelines also described in the Investment Policy regarding maximum maturity, liquidity and the duration of the portfolio.

8. Annual Review

The Treasurer will review these investment procedures and guidelines annually and recommend any necessary revisions to the Board for approval.

Prepared by:
Roger Carroll, Treasurer
Town of Loomis

TOWN OF LOOMIS

RESOLUTION NO. 12-

A RESOLUTION OF THE TOWN COUNCIL OF THE
TOWN OF LOOMIS ACKNOWLEDGING THE REVIEW, RECEIPT AND FILING OF THE
ANNUAL STATEMENT OF INVESTMENT POLICY

WHEREAS, The Legislature of the State of California has declared that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern (California Government Code (GC) sections 53600.6 and 53630.1); and

WHEREAS, the legislative body of a local agency may invest surplus funds not required for the immediate necessities of the local agency in accordance with the provisions of GC sections 5921 and 5360; and

WHEREAS, the Treasurer of the Town of Loomis shall annually prepare and submit a statement of investment policy and such policy, and any changes thereto, shall be considered by the legislative body at a public meeting; and

WHEREAS, the Treasurer of the Town of Loomis declares the Annual Statement of Investment Policy for the 2012-13 fiscal year to be as stated in the Attachment A, "Town of Loomis Investment Policy," and Attachment B, "Town of Loomis Investment Internal Controls and Guidelines," and

WHEREAS, the legislative body of a local agency must annually authorize the Treasurer to invest the surplus funds in accordance with the adopted investment policy.

NOW, THEREFORE, IT IS HEREBY RESOLVED by the Council of the Town of Loomis that the foregoing be received and filed.

PASSED AND ADOPTED this 13th day of November, 2012 by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

_____
Mayor

ATTEST:

_____
Town Clerk