



Finance Committee Memorandum

City of Arts & Innovation

TO: FINANCE COMMITTEE MEMBERS

DATE: MARCH 11, 2020

FROM: FINANCE DEPARTMENT

WARDS: ALL

SUBJECT: REVIEW OF INVESTMENT POLICY

ISSUES:

Receive and provide input on the City's updated Investment Policy and recommend that City Council adopt the City's updated Investment Policy.

RECOMMENDATIONS:

That the Finance Committee:

1. Receive and provide input on the City's updated Investment Policy; and
2. Recommend City Council adopt the City's updated Investment Policy.

LEGISLATIVE HISTORY:

On December 15, 2015, City Council adopted Resolution No. 22940 approving the current policy for the investment of City funds. The approved policy includes language that the policy is to be reviewed on an annual basis but only needs to be brought back to City Council when changes to the policy are recommended.

BACKGROUND:

The City's Investment Policy sets forth guidelines that ensure the City's funds are invested in a prudent manner and managed in conformance with federal, state, and other legal requirements, including California Government Code Sections 16429.1-16429.4, 53600-53609, and 53630-53686.

The authority to manage the City's investment program is provided by the California Government Code Sections 53600 *et seq.* Pursuant to the Government Code, the City Council may delegate to the Treasurer/CFO for a one-year period the authority to invest or to reinvest all funds of the City. The City Charter delegates investment authority to the Chief Financial Officer.

A City Council Approved Investment Policy has served to provide direction and set limits for the Chief Financial Officer as that individual has administered the investment function over the years. This report seeks the Committee's review and approval of the current policy which makes only

minor, non-substantive changes to the policy intending to strengthen internal control.

DISCUSSION:

An investment committee consisting of the Finance Committee Chair, a representative of the City Manager's Office, and a representative from the Public Utilities Department shall be established to provide general oversight and direction concerning policy related issues concerning management of the City's investment pool. The Chief Financial Officer of the City shall not be a member of the committee but will serve in a staff and advisory capacity. The committee shall meet on a quarterly basis unless circumstances require more frequent meetings.

The investment policy for the City states that it will be reviewed by the Investment Committee annually and readopted by resolution of the City Council if changes are made to the policy. The investment policy for Fiscal Year 2020-21 is being presented for review and approval.

In collaboration with the City's investment advisor, and Finance staff recently reviewed and updated the City's investment policy to capture recent changes to California Government Code (Code) sections that govern the investment of public funds. Staff also reviewed the policy to ensure inclusion of the latest best practices from recognized industry groups such as Government Finance Officers Association, California Society of Municipal Finance Officers, California Municipal Treasurers Association, and the Association of Public Treasurers of the United States and Canada. The agenda publication date for this report is Wednesday, February 26, 2020. The City's Investment Committee is scheduled to review the policy at the March 4, 2020 meeting. Any feedback from that meeting will be verbally presented at the March 11, 2020 Finance Committee meeting

There are no changes to Code that require the City to change its investment policy, however there are recent changes to Code language that the City's investment adviser recommends the City adopt. There are a number of governance and risk management related best practices that staff and the adviser also believe would make prudent additions to the City's investment program. Below is a summary of the recommended changes:

1. Conformity with Code on credit rating requirements: Except for money market funds, Code requires a minimum rating category of "A" or higher by only one nationally recognized statistical rating organization (NRSRO) for most investments. For many credit securities, the City's policy requires ratings from two (2) NRSROs. The recommendation is to update the City's policy to conform with the requirements of Code. This update will allow for a greater degree of diversification while still emphasizing safety.
2. Conformity with Code on Supranational requirements: The City's limits supranational securities to 15% of the portfolio and 5% per issuer. The recommendation is to increase the category concentration limit to 30% as allowed by Code, and the issuer limit to 10%. This update will allow the City to enhance diversification with an asset class currently rated in the "AAA" category
3. Updates to Code for passthrough securities: Pursuant to AB 1770, Code removed the *issuer* credit rating requirement for passthrough securities such as mortgage-backed and asset-backed securities. Code continues to require a minimum credit rating for the *issue* itself. The recommendation is to update the policy to reflect this change.
4. Concentration limits on callable securities: The investment policy currently places a 20% limit on callable securities. The recommendation is to make the 20% limit apply only to

federal agency callable securities, as there are other callable securities issued by non-governmental issuers that are desirable for diversification.

5. Concentration limits on federal agency issuers: The investment policy currently places no limits on federal agency issuers. The recommendation is to add a 25% limit to the federal agency securities of any single issuer.
6. Exclusion of commercial paper from issuer limits for medium-term notes: The investment policy currently includes commercial paper securities when calculating issuer limits for medium-term notes. Because commercial paper is a separate investment category with its own risk and return characteristics, the recommendation is to exclude commercial paper when calculating issuer limits for medium-term corporate notes.
7. Addition of due-diligence language for investment pools: The City actively invests in local government investment pools and money market mutual funds. The recommendation is to include a due diligence requirement when making pool investments that requires an investigation into the investment practices of the pool being considered for investment.

The goals of the City's investment program, as outlined in the policy, continue to be safety of principal, liquidity, and return. Staff believe these updates to the policy will strengthen governance over the City's investments while providing the necessary flexibility to capture market opportunities safely.

FISCAL IMPACT:

There is no direct fiscal impact associated with this report.

Prepared by: Edward Enriquez, Chief Financial Officer/City Treasurer
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availability of funds: Edward Enriquez, Chief Financial Officer/City Treasurer
Approved by: Carlie Myers, Deputy City Manager
Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Investment Policy – redlined version
2. Presentation