



**CONSENT CALENDAR**

**Agenda Item #**

**AGENDA REPORT SUMMARY**

**Meeting Date:** February 8, 2022

**Subject:** 2022 Update of City Investment Policy

**Prepared by:** John Furtado, Finance Director

**Approved by:** Gabriel Engeland, City Manager

**Attachment(s):**

1. Investment Policy (with track changes to highlight edits)

**Initiated by:**

Staff and the Financial Commission

**Previous Council Consideration:**

June 11, 2019

**Fiscal Impact:**

None

**Environmental Review:**

Not applicable

**Policy Question(s) for Council Consideration:**

- Does the Council wish to adopt the recommended investment strategies contained within the revised Investment Policy?

**Summary:**

- Revised investment strategies have been recommended by the Financial Commission

**Staff Recommendation:**

Move to adopt the revised Investment Policy for 2022.

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**Reviewed By:**

City Manager

City Attorney

Finance Director

*GE*

*JH*

*JF*

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**Subject:** 2022 Update of City Investment Policy

## **Purpose**

The City Council’s primary responsibilities over the investment function include approving the Policy, annually reviewing such policy, reviewing investment reports issued by the City Treasurer, authorizing bond documents and other unique financing transactions, and authorizing any deviations from the City’s investment policies.

## **Background**

The City’s Investment Policy sets forth guidelines that ensure the City’s funds are invested in compliance with State law and in a prudent manner. The Policy is reviewed on an annual basis by the Financial Commission. The Policy was reviewed by the Financial Commission on January 24, 2022.

At the commission meeting of August 22, 2021, the City’s investment advisor, PFM Asset Management (PFM), presented recommended changes to the Policy. PFM’s recommendation was to include the senate Bill 998 a summary of which is in the following paragraph.

On September 28, 2020, Governor Gavin Newsom signed into law Senate Bill 998 (Moorlach) – Local Government Investments (“SB 998”). SB 998, which took effect on January 1, 2021, and is in effect until January 1, 2026, made several amendments to certain sections of the Code which govern the investment of public funds, including

1. Allowing investment in securities issued or backed by the U.S. government that could result in zero or negative interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates.

2. Allowing local agencies that have more than \$100 million of investment assets under management to invest up to 40% in commercial paper (existing limit is 25% for all agencies, other than a county or a city and county).

*No Change recommended; The City does not have \$100 million in investments*

3. Establishing a 10% issuer limit on commercial paper and corporate notes for all agencies, other than a county or a city and county.

*No Change recommended; current Policy is more restrictive with an allowable limit of 5%*

4. Adding permission for federally recognized Indian tribes to invest and participate in investment Joint Power Authorities (JPAs).

*No Change recommended; The City does not have any JPA’s*

## Discussion/Analysis

On an annual basis, the Financial Commission reviews the Investment Policy to ensure there is diversity, while still fiscally prudent when investing the City's funds. The recommended changes by the Financial Commission to the Investment Policy January 2022 includes the following:

**1. Allowing investment in securities issued or backed by the U.S. government that could result in zero or negative interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates.**

While both staff and PFM hope the market will not put us in a position to have to buy a security that results in zero or negative interest accrual, PFM recommended and thought it was appropriate to have the option in case it is necessary. This will remain in place till January 1, 2026, or sooner if SB 998 is repealed. Our investment manager PFM will not be allowed to invest in zero or negative interest accrual without the prior permission of the City Manager.

**2. LAIF Deposit Limit increase.**

State treasurer Fiona Ma announced that effective January 1, 2020, she will increase the Local Agency Investment Fund's deposit limit for regular accounts to \$75 million from the current \$65 million. Previously, the most recent deposit limit increase to \$65 million from the previous \$50 million occurred in January 2016.

*Staff recommends increasing the limit in the policy to \$75 million.*

## Options

1) Adopt the revised Investment Policy

**Advantages:** Allows the City to invest its funds in a broader way to maximize the City's return on investment, while still maintaining fiscal prudent in investments

**Disadvantages:** None identified

2) Provide direction on additional changes/edits to the Investment Policy

**Advantages:** Additional changes in allowable investments could result in a greater return on the City's investments

**Disadvantages:** These investments could result in a greater risk of loss of City funds

3) Do not adopt the revised Investment Policy

**Advantages:** None identified

**Disadvantages:** The City's investments will remain governed by the 2019 Investment Policy and was recommended by the Financial Commission for changes

## Recommendation

The staff recommends Option 1.