



**Agenda Item No. 12g.**

**Staff Report**

**Date:** July 14, 2022

**To:** Mayor Kuhl and Council Members

**From:** Christa Johnson, Town Manager

**Subject:** Annual Investment Policy review

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**Recommendation**

It is recommended that the Town Council review and approve the Town's July 14, 2022 Investment Policy.

**Background and discussion**

Consistent with best public investing practices and the City's Investment Policy, a review of the content of the investment policy is conducted annually. The purpose of this report is to provide the Town Council with an opportunity to review the Town's current investment policy, the one minor change to the policy recommended by staff, and to formally approve the policy.

The Town has had an investment policy since 2008. In order to maintain compliance with State law, a new investment policy was developed in 2013 by a financial investment advisory committee appointed by the Town Council. Since 2013, the policy has been reviewed and approved annually by the Town Council. All Town funds are invested in compliance with this Annual Investment Policy and with California Government Code Section 53600 et. seq.

The annual review of the Investment Policy ensures the Investment Policy's consistency with the overall objectives of preservation of principal, liquidity, yield and diversification and its relevance to current law and economic trends. The Town has been following the investment policy since adoption.

As part of the annual review process, staff sent the policy to the Town Council's standing Finance Committee, comprised of Mayor Pro Tem Brekhus and Council Member McMillan, for review. As a result of their review, staff is recommending a minor edit to the policy on Page 2 that states the Town Manager, in consultation with the Finance Committee, shall maintain (instead of

develop) administrative policies and internal controls consistent with this Policy, for the operation of the Town's investment program.

The reason for this minor edit is that on August 12, 2021 the Town Council adopted a Finance Policy Manual that has an Investment Section 6 (pages 14 and 15 – see attached.) Internal controls are in place such as: the accounts are reconciled on a monthly basis, the auditors independently confirm the balances, and reports are presented to the Town Council for review on a quarterly basis.

**Fiscal, resource and timeline impacts**

Adoption of the policy does not have a financial impact to the Town.

**Attachments**

- July 14, 2022 Annual Investment Policy
- Town of Ross Finance Policy Manual, Pages 14 and 15



**Annual Investment Policy**

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**Adopted by the**

**Town Council**

July 14, 2022

## **INTRODUCTION**

The Town Council of the Town of Ross (the Town) has adopted this Annual Investment Policy (the Policy) to establish the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, eligible investments and transactions, diversification requirements, risk tolerance, safekeeping and custodial procedures for the investment of Town funds. All such funds shall be invested in accordance with this Policy and with the applicable sections of California Government Code §53600 et. Seq.). This Policy replaces any previous investment policy or investment procedures of the Town.

## **SCOPE**

This Investment Policy applies to all funds and investment of the Town. The Investment Policy does not apply to Section 115 Trust funds which are governed by their respective trust documents.

## **OBJECTIVES**

The Town's funds shall be invested in compliance with all applicable Town Municipal Codes, California State statutes, and Federal regulations and in a manner designed to accomplish the following objectives, which are listed in priority order:

1. Preservation of capital and protection of investment principal;
2. Maintenance of sufficient liquidity to meet anticipated cash flows;
3. Attainment of a market rate of return, taking into account investment risk constraints, diversification and cash flow characteristics of the portfolio, as well as Objectives number 1 and 2 above.

## **DELEGATION OF AUTHORITY**

The management oversight responsibility for the Town's Investment program is delegated annually by the Town Council to the Town Manager pursuant to California Government Code § 53601, et. seq. The Town Manager shall maintain a list of Investment Management Organizations authorized to oversee investment portfolios on behalf of the Town of Ross. No person may engage in an investment transaction, and no person may hire or fire an Investment Management Organization except as expressly provided under the terms of this Investment Policy Statement.

The Town Manager in consultation with the Finance Committee shall ~~develop~~ maintain written administrative procedures and internal controls, consistent with this Policy, for the operation of the Town's investment program. Such procedures ~~shall be~~ are designed to

prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees of the Town.

The Town will engage the services of outside investment management organizations in regard to its investment program, in order to allow the Town to benefit from the experience, knowledge and expertise of professional investment fiduciaries. These services are intended to produce a net financial and fiduciary oversight advantage resulting in the expectation of the necessary financial protection of the Town's financial resources.

### **PRUDENCE**

The standard of prudence to be used for managing the Town's investments shall be California Government Code Section 53600.3, the "Prudent Investor" standard which states, "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

The Town's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The Town recognizes that no investment is totally without risk and that the investment activities of the Town are a matter of public record. Accordingly, the Town recognizes that occasional measured losses may be desirable in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the Town.

The Town Manager and authorized investment personnel acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for the security purchase and sale decisions of each manager, and, when the purchase of an individual security is approved in advance by the Town Council, an individual security's credit risk or market price changes, provided that the deviations from expectations are reported in a timely fashion to the Town Manager and appropriate action is taken to control adverse developments.

### **ETHICS AND CONFLICTS OF INTEREST**

Elected officials and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or that could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Town Manager any business interests they have in financial institutions that conduct

business with the Town and they shall subordinate their personal investment transactions to those of the Town. In addition, the Town Manager and the Treasurer shall file a Statement of Economic Interests each year pursuant to California Government Code Section 87203 and regulations of the Fair Political Practices Commission.

#### **AUTHORIZED AND SUITABLE INVESTMENTS**

All investments and deposits of the Town shall be made in accordance with California Government Code Sections 16429.1, 53600-53609 and 53630-53686, except that, pursuant to California Government Code Section 5903(e), proceeds of bonds and any moneys set aside or pledged to secure payment of the bonds may be invested in securities or obligations described in the ordinance, resolution, indenture, agreement, or other instrument providing for the issuance of the bonds. Any revisions or extensions of these code sections will be assumed to be part of this Policy immediately upon being enacted. However, in the event that amendments to these sections conflict with this Policy and past Town investment practices, the Town may delay adherence to the new requirements when it is deemed in the best interest of the Town to do so. In such instances, after consultation with the Town's Attorney, the Town Manager will present a recommended course of action to the Town Council for approval.

The Town has further restricted the eligible types of securities and transactions as follows:

1. Certificate of Deposits

- Federal Deposit Insurance Corporation (FDIC) insured minimum credit quality with a maximum of 30% of portfolio invested in Certificate of Deposits (CDs).

2. Joint Powers Authority Pools

- Shares of beneficial interest issued by a joint powers authority organized pursuant to California Government Code Section 6509.7. A joint powers authority formed pursuant to Section 6509.7 may issue shares of beneficial interest to participating public agencies. Each share represents an equal proportional interest in the underlying pool of securities owned by the joint powers authority. The underlying pool of securities is those securities and obligations that are eligible for direct investment by local public agencies. The joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:
- A joint powers authority pool shall be rated AA (or equivalent highest ranking) by one of the three nationally recognized rating services.
- Such investment may not represent more than ten percent (10%) of the joint powers authority pool's assets.

Advisor must be

- 1) Registered or exempt from registration with the Securities and Exchange Commission (SEC)
  - 2) Have five (5) or more years of experience investing in the securities and obligations authorized in the Code
  - 3) Have assets under management in excess of five hundred million dollars (\$500,000,000)
3. Local Agency Investment Fund (LAIF)
    - Local Agency Investment Fund (L.A.I.F.) was established by the state of California to enable treasurers to place funds in a pool for investments. There currently is a limitation of \$40 million per agency subject to a maximum of 10 total transactions per month
  4. Money Market Mutual Funds
    - Rated AAA (or equivalent highest ranking by two of three largest nationally recognized rating services) with not less than five year's experience in investing in money market instruments with assets under management greater than \$500 million.
    - Maximum of 20% of the portfolio can be invested in a money market mutual fund with no more than 10% in any one mutual fund.
  5. U.S. Treasury bills, notes and bonds
    - Maturity not to exceed 5 years
  6. U.S. Treasury obligations Issued by Federal Agencies or a US Government Sponsored Enterprise such as Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA) & Sallie Mae's
    - Maturity not to exceed 5 years
  7. Commercial Paper
    - Commercial paper must be of highest letter and number rating by a nationally recognized rating agency with a maximum of 10% of portfolio invested in commercial paper. Maximum maturity of commercial paper is 270 days.

It is the intent of the Town that the foregoing list of authorized securities and transactions is strictly interpreted. Any deviation from this list must be preapproved by resolution of the Town Council.

#### **PORTFOLIO MATURITIES AND LIQUIDITY**

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities. The Town will not invest in securities maturing more than five years from the date of purchase, unless the Town Council has by resolution

granted authority to make such an investment at least three months prior to the date of investment.

#### **SELECTION OF BROKERS | DEALERS**

No Town employee will hire a broker/dealer, and no Town employee will purchase or sell securities on behalf of the Town without Town Council written approval in advance.

However, should a purchase of an individual security be deemed appropriate, the Town Manager shall maintain a list of broker/dealers authorized for investment purposes, and it shall be the policy of the Town to purchase securities only from those authorized firms. To be eligible, a firm must be licensed by the State of California as a broker/dealer as defined in Section 25004 of the California Corporations Code, and:

1. Be recognized as a Primary Dealer by the Federal Reserve Bank of New York or have a primary dealer within its holding company structure, or
2. Report voluntarily to the Federal Reserve Bank of New York, or
3. Qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

Each authorized broker/dealer shall be required to submit and annually update a Town approved Broker/Dealer Information Request form which includes the firm's most recent financial statements. The Town Manager shall maintain a list of the broker/dealers that have been approved by the Town, along with each firm's most recent broker/dealer Information Request form.

In the event that an external investment advisor is not used in the process of recommending a particular transaction in the Town's portfolio, authorized broker/dealers shall attest in writing that they have received and reviewed a copy of this policy.

#### **SELECTION OF BANKS**

The Town Manager shall maintain a list of banks that are approved to provide banking services for the Town. To be eligible for authorization, a bank must be a member of the FDIC and shall qualify as a depository of public funds in the State of California as defined by California Government Code Section 53630.5. In addition, the bank must have a minimum "Tier 1" capital base of \$10 Billion.

#### **SAFEKEEPING AND CUSTODY**

When appropriate, the Town Manager shall select one or more banks or brokers to provide safekeeping and custodial services for the Town, in accordance with the provisions of



Section 53608 of the California Government Code. A Safekeeping Agreement approved by the Town shall be executed with each custodian bank or brokerage firm prior to utilizing that firm's safekeeping services. Custodians will be selected on the basis of their ability to provide services for the Town's account and the competitive pricing of their safekeeping related services – which services are usually free of any charges.

The purchase and sale of securities and repurchase agreements shall be made and settled, only when they are approved in advance by the Town Council, on a delivery versus payment basis. All securities shall be perfected in the name of the Town. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

If the Town Council approves the purchase of individual securities in advance, all investment securities purchased by the Town will be delivered by either book entry or physical delivery and will be held in third-party safekeeping by a Town approved custodian bank or brokerage firm, its correspondent bank or brokerage firm, or its Depository Trust Company (DTC) participant account. The Town's custodian shall be required to furnish the Town a list of holdings on at least a monthly basis and safekeeping receipts or customer confirmations shall be issued for each transaction

#### **PORTFOLIO PERFORMANCE**

The investment portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements, as well as the Town's two portfolio priorities: Stability and return of capital and liquidity to meet the Town's future liabilities. The performance of the Town's investments shall be compared to the average yield on the U.S. Treasury security that most closely corresponds to the portfolio's actual weighted average effective maturity. When comparing the performance of the Town's portfolio, its rate of return will be computed net of all fees and expenses

#### **REPORTING**

On a quarterly basis, the Town Manager shall submit to the Council an investment report. The report shall include the following information:

1. Total investment earnings for the quarter and fiscal year to date.
2. A schedule of cash and investment account balances at end of quarter.
3. A graph showing the quarter end balances of cash and investment accounts.
4. A copy of bank and investment account statements showing balances at end of quarter with account numbers blacked account.
5. A copy of performance reports prepared by the Investment Management Organizations (for example: LAIF Performance Report and CalTrust Monthly Market Update)

6. A statement of the ability to meet expenditure requirements for six months, as well as an explanation of why money will not be available if that is the case.

Annually, the Town Manager shall submit to the council from each Investment Management Organization that the Town has over \$20,000 of investments with a statement of its compliance with this policy (except for LAIF and CalTRUST which are assumed to be in compliance) or an explanation and request for written approval by the Town Council for their continued service if not in compliance.

#### **DIVERSIFICATION**

It is the policy of the Town to diversify its investment portfolio. The Town will diversify its investments by security type and, within each type, by institution. Assets shall be diversified to eliminate the risk of loss resulting from over-concentrations of assets in a specific maturity, a specific issuer or a specific class of securities. Diversification strategies shall be determined and revised periodically. In establishing specific diversification strategies, the following guidelines apply:

1. Portfolio maturities shall be matched against projected liabilities to avoid an over-concentration in a specific series of maturities
2. Maturities selected shall provide for stability and liquidity
3. Disbursements and payroll dates shall be covered by the scheduled maturity of specific investments, marketable U.S. Treasury bills or notes or other cash equivalent instruments, such as money market mutual funds

To provide clarity this table is provided:

<u>Investment type</u>	<u>% maximum</u>
• Certificate of deposits	30%
• Joint Power Authority pools	None (1)
• Local Agency Investment Fund	None
• Money market mutual funds	None
• U.S. Treasury bills, notes and bonds	None
• U.S. Treasury obligations	None
• Commercial paper	10%

(1) (e.g., California Asset Management Program (CAMP), CALTRUST, Marin County Treasury Pool)

#### **POLICY REVIEW**

This Policy shall be reviewed and approved by Town Council annually to ensure its consistency with the overall objectives of preservation of principal, liquidity, yield and

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diversification and its relevance to current law and economic trends. Any additional amendments to this Policy shall be submitted to the Town Council for approval.

## **6. INVESTMENTS**

The Town Investment Policy is approved each year by the Town Council at a Council meeting. This Section narrative summarizes the provisions in the adopted Policy. If there are differences between this section and the adopted Investment Policy, the adopted Investment Policy shall prevail.

### **6.1 PURPOSE**

The Town has an Investment Policy which establishes the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, eligible investments and transactions, diversification requirements, risk tolerance, safekeeping and custodial procedures for the investment of Town funds. All such funds shall be invested in accordance with this Policy and with the applicable sections of California Government Code §53600 et. seq.). The Investment Policy does not apply to Section 115 Trust funds which are governed by their respective trust documents.

### **6.2 OBJECTIVE**

The Town's funds shall be invested in compliance with all applicable Town Municipal Codes, California State statutes, and Federal regulations in a manner designed to accomplish the following objectives in the listed priority order:

1. Preservation of capital and protection of investment principal;
2. Maintenance of sufficient liquidity to meet anticipated cash flows;
3. Attainment of a market rate of return, taking into account investment risk constraints, diversification and cash flow characteristics of the portfolio, as well as Objectives number 1 and 2 above.

### **6.3 POLICY**

In order to maximize interest earnings, the Town pools the cash from all funds, except those funds held in trust for the Town by various financial institutions in accordance with applicable trust agreements. Interest revenue derived from pooled cash is allocated quarterly to the participating funds based on the relative cash balance of each fund.

### **6.4 INVESTMENT CRITERIA**

All investments and deposits of the Town shall be made in accordance with California Government Code Sections 16429.1, 53600-53609 and 53630-53686, except that, pursuant to California Government Code Section 5903(e), proceeds of bonds and any moneys set aside or pledged to secure payment of the bonds may be invested in securities or obligations described in the ordinance, resolution, indenture, agreement, or other instrument providing for the issuance of

the bonds.

For additional safety reasons, the Town has further restricted the eligible types of securities and transactions from those specified in the California Government Code Sections. The eligible investments for the Town are listed in the Council approved Investment Policy.

#### **6.5 INVESTMENT APPROACH**

It is the practice of the Town to invest primarily in the Local Agency Investment Fund or in similar low-risk instruments such as Joint Power Authority pools such as CalTRUST or CAMP. Longer-term investments of reserve funds or bond proceeds in other instruments may be considered. Any such investments should only be undertaken if the likelihood of the Town needing to deploy these funds in the near term is low.

#### **6.6 RESPONSIBILITY AND REPORTING**

The management oversight responsibility for the Town's Investment program is delegated by the Town Council to the Town Manager pursuant to California Government Code sections.

Each quarter the Town Manger prepares and provides to the Town Council at a Council meeting an Investment Report consistent with the Investment Policy which shows the Towns investments, rates of return, and investment income.