

September 16, 2024
Council Resolution 2024-31

A. Introduction

The purpose of this document is to identify various policies and procedures that enhance the opportunities for a prudent and systemic Investment Policy and to organize and formalize investment related activities. Related activities which comprise good cash management include accurate cash projections, the expeditious collection of revenue, the control of disbursements, cost-effective banking relations, and a short-term borrowing program which coordinates working capital requirements and investment opportunity. In concert with these requirements are many facets of an appropriate and secure short-term investment program.

B. Scope

It is intended that this policy cover all funds and investment activities under the direct authority of the City.

C. Objectives

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

1. **Safety.** Safety of principal is the foremost objective of the investment program. The City's investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio.
2. **Liquidity.** The City's investment portfolio will remain sufficiently liquid to enable the City to meet its reasonably anticipated cash flow requirements. An adequate percentage of the portfolio should be maintained in liquid, short-term securities which can be converted to cash if necessary to meet disbursement requirements.
3. **Yield.** Yield should become a consideration only after the basic requirements of safety and liquidity have been met. The City seeks to attain a market-average rate of return on its investments throughout economic cycles, taking into account the City's risk constraints, the cash flow characteristics of the portfolio, and State and Local laws, ordinances or resolutions that restrict investments.

D. Prudence

All participants in the investment process shall recognize that the investment program is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism worthy of the public trust.

All persons authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to the prudent investor standard. The prudent investor standard states, in essence, that "a trustee shall act with care, skill, prudence, and diligence under 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.”

E. Delegation of Authority

The City Council delegates its authority to invest funds of the City for a one-year period to the City Treasurer, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires. Subject to review, the City Council may renew the delegation of authority each year. The Treasurer shall make all investment decisions and transactions in strict accordance with state law and this Investment Policy. If authorized by the City Council, the Treasurer may delegate his/her investment decision-making and execution authority to an investment advisor. The advisor shall follow the investment policy, herein stated, and such other written instructions as are provided.

According to Municipal Code Section 2.10.010 the Finance Director shall additionally function as the City Treasurer of the City and shall be responsible, under the City Manager’s direction, for keeping the record of all investments and submitting the reports as required by this policy and the California Government Code.

The Treasurer and the delegated 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.

F. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the Investment Program, or which could impair their ability to make impartial investment decisions.

G. Internal Controls

The Treasurer shall establish a system of written internal controls to regulate the City’s investment activities, including the activities of any subordinate officials acting on behalf of the City.

Controls deemed most important include: control of collusion, separation of duties, separating transaction authority from accounting and record keeping, custodial safekeeping, clear delegation of authority, specific limitations regarding securities losses and remedial action, minimizing the number of authorized investment officials, documentation of transactions and strategies, and code of ethics standards.

H. Authorized Financial Dealers and Institutions

A competitive process, when practical, will be used for all purchases and sales of investments. It shall be the City’s policy to purchase securities only from those authorized institutions and firms. No deposit of public funds shall be made except in a qualified public depository as established by state laws.

The Treasurer shall maintain a list of authorized broker/dealers and financial institutions that are approved for investment purposes. If an external investment advisor is authorized to conduct investment transactions on the City's behalf, the investment advisor may use their own list of approved broker/dealers and financial institutions for investment purposes. This list should be provided to the City.

I. Safekeeping and Custody

All security transactions entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. To protect against potential losses by collapse of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all securities owned by the City shall be held in safekeeping by a third party bank trust department, acting as agent for the City under the terms of a custody agreement executed by the bank and by the City. The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) LAIF, the county pool, and other local government investment pools; (ii) time certificates of deposit, and, (iii) money market mutual funds, since the purchased securities are not deliverable.

J. Authorized and Suitable Investments

The City's investments are governed by Government Code, Sections 53600 et seq. Within the investments permitted by the Government Code, the City seeks to further restrict eligible investment to the investments listed below. In the event an apparent discrepancy is found between this policy and the Government Code, the more restrictive parameters will take precedence.

The portfolio shall be diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Percentage holding limits listed in this section apply at the time the security is purchased. In the event a security held by the City is subject to a credit rating change that brings it below the minimum credit ratings specified in this policy, the Treasurer should notify the City Council of the change. The course of action to be followed will then be decided on a case-by-case basis, considering such factors as the reason for the change, prognosis for recovery or further rate drops, and the market price of the security.

1. **United States Treasury Issues.** 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. There is no limitation as to the percentage of the portfolio that may be invested in this category.
2. **Federal Agency Obligations.** Federal Agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. There is no limitation as to the percentage of the portfolio that may be invested in this category; however purchases of callable Federal Agency obligations are limited to a maximum of 20 percent of the portfolio. In addition, purchases of Federal Agency mortgage-backed securities issued by or fully guaranteed as to principal and interest by government agencies are limited to a maximum of 20 percent of the portfolio.
3. **California Municipal Debt.** Registered 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 a state or by a department, board, agency, or authority of this state.

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. Purchases are limited to securities rated at least in the “AA” category, or its equivalent, by a Nationally Recognized Statistical Rating Organization (“NRSRO”). A maximum of 15 percent of the portfolio may be invested in this category. The amount invested with any one issuer shall not exceed 10 percent of the portfolio.

4. **Medium-Term Notes.** Medium-term notes are defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, 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. Purchases are limited to securities rated at least in the “A” category, or its equivalent, by a NRSRO. A maximum of 30 percent of the portfolio may be invested in this category. The amount invested in corporate notes of any one issuer in combination with any other securities from that issuer shall not exceed 10 percent of the portfolio.
5. **Negotiable Certificates of Deposit.** Negotiable certificates of deposit (NCDs) issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a state-licensed branch of a foreign bank. The full amount of the principal and the interest that may be accrued during the maximum term of each certificate of deposit shall at all times be insured by federal deposit insurance. NCDs may not exceed 5 years in maturity. A maximum of 30 percent of the portfolio may be invested in this category. The amount invested in NCDs with any one financial institution in combination with any other securities from that financial institution shall not exceed 5 percent of the portfolio.
6. **Commercial Paper.** Commercial paper of “prime” quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions: (i) Is organized and operating in the United States as a general corporation. (ii) Has total assets in excess of five hundred million dollars (\$500,000,000). (iii) Has debt other than commercial paper, if any that is rated at least in the “AA” category, or its equivalent, by a NRSRO.

Eligible commercial paper shall have a maximum maturity of 270 days or less and not represent more than 10 percent of the outstanding paper of an issuing corporation. A maximum of 25 percent of the portfolio may be invested in this category. The amount invested in commercial paper of any one issuer in combination with any other securities from that issuer shall not exceed 10 percent of the portfolio.

7. **Bankers’ Acceptances.** Bankers’ acceptances, otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases are limited to bankers’ acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System. Purchases of bankers’ acceptances may not exceed 180 days maturity. Eligible bankers’ acceptances are restricted to issuing financial institutions with short-term paper rated in the highest category by a NRSRO. Investments in bankers’ acceptances are further limited to 40 percent of the portfolio. The amount invested in bankers’ acceptances of any one issuer in combination with any other securities from that issuer shall not exceed 10 percent of the portfolio.

8. **Bank Deposits.** FDIC insured or fully collateralized demand deposit accounts, savings accounts, market rate accounts and time certificates of deposits (“TCDs”) in financial institutions located in California. The amount on deposit in any financial institution shall not exceed the shareholder’s equity. To be eligible to receive City deposits, the financial institution must have received a minimum overall satisfactory rating, under the Community Redevelopment Act, for meeting the credit needs of California Communities in its most recent evaluation. Bank deposits are required to be collateralized as specified under Government Code Section 53630 et. seq. The Treasurer, at his/her discretion, may waive the collateralization requirements for any portion that is covered by federal deposit insurance. The City shall have a signed agreement with any depository accepting City funds per Government Code Section 53649. The maturity of TCDs may not exceed 1 year in maturity. A maximum of 20 percent of the portfolio may be invested in TCDs.
9. **Placement Service Time Certificates of Deposit.** Certificates of deposit placed through a deposit placement service shall meet the requirements under Government Code Section 53601.8. The full amount of the principal and the interest that may be accrued during the maximum term of each certificate of deposit shall at all times be insured by federal deposit insurance. The maximum term for time certificates of deposit shall be five years. The combined amount invested in time certificates of deposit and negotiable certificates of deposit shall not exceed 30 percent of the portfolio.
10. **State of California Local Agency Investment Fund (LAIF).** LAIF is a voluntary program offering local agencies the opportunity to participate in a multi-billion dollar portfolio. LAIF is part of the State of California’ Pooled Money Investment Account (PMIA). Oversight of the PMIA is provided by a board whose members include the State Treasurer, Director of Finance, and the State controller. All securities are purchased under the authority of the California Government Code. There is no limitation as to the percentage of the portfolio that may be invested in this category.
11. **Humboldt County Investment Pool.** The City may invest in the Humboldt County Investment Pool operated by the Humboldt County Treasurer. A maximum of 50 percent of the portfolio may be invested in this category.

Whenever the City has any funds invested in County pool, the Treasurer shall maintain on file a copy of the pool’s current investment policy and its requirements for participation, including limitations on deposits or withdrawals. In addition, the Treasurer should review the pool’s summary portfolio holdings on a quarterly basis.

12. **Local Government Investment Pools.** Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7. To be eligible for purchase, the pool must meet the requirements of California Government Code Section 53601(p), the pool must seek to maintain a stable Net Asset Value (“NAV”), and the pool must rated at least AAAM, or its equivalent, by a NRSRO. A maximum of 50 percent of the portfolio may be invested in this category.

Whenever the City has any funds invested in a LGIP, the Treasurer shall maintain on file a copy of the pool’s current information statement. In addition, the Treasurer should review the pool’s summary portfolio holdings on a quarterly basis.

13. **Money Market Funds.** Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission that invests solely in U.S. Treasuries and Federal Agency obligations and repurchase agreements relating to such obligations.

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 NRSROs. (B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000). A maximum of 20 percent of the portfolio may be invested in this category.

If the City has funds invested in a money market fund, a copy of the fund's information statement shall be maintained on file. In addition, the Treasurer should review the fund's summary holdings on a quarterly basis.

K. Authorized Investments for Bond Proceeds

Bond proceeds shall be invested in the securities permitted by the applicable bond documents. If the bond documents are silent as to the permitted investments, bond proceeds will be invested in the securities permitted by this policy. Notwithstanding the other provisions of this policy, the percentage or dollar portfolio limitations listed in elsewhere in this policy do not apply to bond proceeds. In addition to the securities listed in Section J above, bond proceeds may be invested in a structured investment product if approved by the Treasurer.

L. Prohibited Investment Practices and Instruments

Any investment in a security not specifically listed in Section J, but otherwise permitted by the Government Code, is prohibited without the prior approval of the City Council. In addition, Government Code Section 53601.6 specifically prohibits investments in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages.

M. Maximum Maturities

It is the objective of this policy to provide a system which will accurately monitor and forecast revenues and expenditures so that the City can invest funds to the fullest extent possible. Funds of the City will be invested in accordance with sound treasury management principles.

The maximum maturity of individual investments shall not exceed the limits set forth in Section J. Where no maturity limit is stated, no investment shall exceed a maturity of five years from the date of purchase unless the City Council has granted express authority to make that investment either specifically or as a part of an investment program approved by the City Council no less than three months prior to the investment. With respect to maximum maturities, this policy authorizes investing bond reserve funds beyond five years if prudent in the opinion of the Treasurer.

N. Reporting

The Finance Director shall submit a quarterly investment report to the City Council. This report will include the following elements:

- Type of investment

- Name of issuer
- Date of maturity
- Amount of deposit or cost of security
- Current market value of securities with maturity in excess of twelve months
- Coupon rate, if applicable
- Yield to maturity at cost
- A list of monthly investment transactions
- A statement that the portfolio complies with the investment policy, or the manner in which the portfolio is not in compliance
- A statement denoting the ability of the City to meet its liquidity requirements for the next six months, or provide an explanation as to why sufficient money shall, or may not be, available

O. Policy Adoption

This policy can be revised whenever necessary and will be reviewed by the City Council annually at a public meeting. Any change in the policy shall be reviewed and approved by the City Council at a public meeting.