

City of Piedmont
COUNCIL AGENDA REPORT

DATE: April 16, 2018
TO: Mayor and Council
FROM: Paul Benoit, City Administrator
SUBJECT: Consideration of Adoption of an Updated Investment Policy

RECOMMENDATION

Adopt an updated Investment Policy for the City of Piedmont which replaces the existing policy adopted November 17, 1986.

BACKGROUND

The City's current investment policy, attached as exhibit B, was adopted by the City Council in November of 1986. Since that time, financial industry practices have changed dramatically, and Government Code §53600, et seq. which governs investments, has been updated by the Legislature.

The proposed updated Investment Policy, attached as exhibit A, continues to affirm our fiduciary responsibility to safeguard public assets. It places a high priority on ensuring safety of principal first and then ensuring that the liquidity needs for payment of payroll and other City obligations are met prior to considering yield on the investment. Because the existing investment policy is so outdated, the updated policy was drafted as a new document. The new policy follows the format/guidelines prescribed by the Local Agency Investment Guidelines of the California Debt and Investment Advisory Commission (CDIAC), Government Finance Officers Association (GFOA).

The proposed update to the Investment Policy is designed to ensure we provide adequate safety of investment principal; sufficient liquidity to meet the City's operating requirements; and that the portfolio generates a return on investment equivalent to the market rate. The proposed policy provides for an annual review process to ensure its consistency with the overall objectives of preservation of principal, liquidity and yield, and its compliance with current law. Any amendments to the Investment Policy must be approved by the City Council.

The proposed policy delegates the authority to manage the investment program jointly to the City Administrator and Finance Director. These responsibilities include the authority to open accounts with banks, brokers, and dealers and to establish safekeeping accounts or other arrangements for the custody of securities and to execute such documents as may be necessary.

Investments for public agencies typically are in the form of debt instruments – commercial paper, bonds, and certificates of deposits are examples of these types of instruments.

- Debt instruments typically have a “principal” component. The term “principal” means the face or par value of the debt investment. Interest typically accrues on the outstanding principal or face amount.
- The vast majority of local agency portfolios are managed with a buy and hold investment strategy. Investments are purchased with the intent and capacity to hold them until maturity.
- Generally, securities issued by the federal government and its agencies are considered the most secure, while securities issued by private corporations, or negotiable certificates of deposit issued by commercial banks have a greater degree of risk. Securities with additional credit enhancements, such as bankers’ acceptances, collateralized repurchase agreements, and collateralized bank deposits, are somewhere between the two on the risk spectrum.

The policy includes a table listing authorized investments, maximum maturity, maximum % of portfolio allowed per investment type, and minimum quality requirements per investment type. It is our intention to focus our portfolio on the following investment types:

Depository Trust Company (DTC) - eligible Certificates of Deposit (CDs) - Secured time deposits issued by Federal Deposit Insurance Corporation (FDIC)-insured and National Credit Union Administration (NCUA)-insured financial institutions and are distributed by Financial Industry Regulatory Authority (FINRA)-registered broker-dealers. These CD’s can be sold in the secondary market prior to maturity but may result in a return different from the yield the CD would have earned had it been held to maturity. These investments are Federally insured up to \$250,000 per institution.

U. S. Government Treasuries - United States Treasury Bills, Notes, and Bonds backed by the full faith and credit of the United States Government and considered to be the most secure securities.

U.S. Government Sponsored Enterprise Debt (GSEs) (known as Agencies) - Federal agency and instrumentality obligations are marketable debt instruments issued by a government sponsored enterprises (GSE), or a federally related institution, commonly known as federal or U.S. “agencies.” Such agencies include, Federal Farm Credit Bank System (FFCB), Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), and Federal National Mortgage Association (FNMA).

Local Agency Investment Fund (LAIF) - LAIF was created in the California State Treasury by Gov. Code §16429. LAIF holds local government funds in trust in a state investment pool in order to provide safety, liquidity and the benefits of the investment pool yield for local government entities invested in LAIF. LAIF may hold a broader range of securities that would not be eligible under the City investment criteria. Since LAIF is subject to different statutory investment provisions, any such variances in the

LAIF pool holdings are appropriate exceptions for City purposes.

Commercial Paper (CP) - Commercial paper is an unsecured, short-term (under 270 days) promise to repay a fixed amount on a certain future date. Corporations, banks and other borrowers issue CP as a less expensive alternative to short-term loans.

FISCAL IMPACT

The investment portfolio will be implemented to ensure that we will 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.

Exhibits: A. Updated Investment Policy
 B. Current Investment Policy

By: Michael Szczech, Finance Director

CITY OF PIEDMONT
Police & Procedure

Policy #12
Section: Administration/Finance

Subject: Investment Policy

Policy

It is the policy of the City of Piedmont City Council to invest public funds in a manner which will provide the maximum security with best investment return, while meeting the daily cash flow demands of the City, and conforming to all state and local statutes governing the investment of public funds.

This Investment Policy is intended to provide guidelines for the prudent investment of the funds of the City and to outline the policies for maximizing the efficiency of the City's cash management system. The ultimate goal is to enhance the economic status of the City while safeguarding its assets.

Scope of Investment Policy

This Investment Policy applies to all financial assets of the City. It does not cover retirement investments held by a trustee (such as Police and Fire Pension Plan, and CalPERS), which all have separate investment policies. Policy statements outlined in this document focus upon the City's pooled funds, but will also apply to all other funds under the City Administrator and Finance Director span of control unless specifically exempt by statute or ordinance.

Procedure

I. Prudence

The City must adhere to the guidance provided by the "prudent investor" standard, which, as stated in Government Code section 53600.3, reads,

"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. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation.

Accordingly, the overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

Employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.

II. Investment Objectives

The City's primary investment objectives, in order of priority and consistent with Government Code Section 53600.5, of the City's investment activities shall be:

Safety: Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk (the risk of loss due to failure of the financial institution, broker/dealer default, or erosion of market value) and interest rate risk (the risk that the market value of securities in the portfolio will fall due to changes in general interest rates). To attain this objective, the City will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions.

Liquidity: The investment portfolio shall remain sufficiently liquid to enable the City to meet all operating and capital requirements that may be reasonably anticipated. Prior to investing funds of the City, the City Administrator and Finance Director will meet to ensure mutual understanding of the City's projected cash needs for day-to-day operations and ongoing capital projects. Using this information, the City Administrator and Finance Director can then determine the appropriate amount and maturity of the investments to be made, if any.

Return on Investments (Yield): The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles while taking into account the investment risk constraints and liquidity needs.

III. Delegation of Authority

Authority to manage the investment program is jointly granted to the City Administrator and Finance Director. These responsibilities shall include the authority to open accounts with banks, brokers and dealers and to establish safekeeping accounts or other arrangements for the custody of securities and to execute such documents as may be necessary.

The Finance Director shall apprise the City Administrator of the investment activities transacted to ensure understanding.

IV. Safekeeping of Securities

All securities owned by the City shall be held in a safekeeping account with the financial

institution in the name of the City and under City control at all times. All trades, where applicable, shall be executed by delivery of the security to the safekeeping account for the City, including those purchased for the City by financial advisers, consultants, or managers by book entry, physical delivery, or by third-party custodial agreement. All security transactions shall be evidenced by safekeeping receipts.

V. Authorized Investments

The City of Piedmont is authorized to make investments in any investment vehicle authorized in Government Code Sections 16429.1, 53601, 53601.1, 53635, and 53638. The City is required to follow the specific requirements for securities laid out in these sections. Exhibit A to this policy contains a listing of authorized investments.

Diversification of the portfolio will be made in such a manner as to avoid incurring unreasonable risks and with the objectives of this policy at all times. No investment shall be made in a security that is prohibited by this policy or by Government Code 53601.6

At the time of each investment, either by renewal or initial purchase, an analysis shall be made of the entire portfolio to ensure that the limit for that type of investment shall not be exceeded.

VI. Investments Held by Trustees

Assets held by fiscal agents are held pursuant to formal agreements such as the requirements of a bond issue or an agreement between the City and another government agency or other entity. The investment of assets held by fiscal agents shall occur pursuant to these formal requirements as permitted by Government Code Section 53601(m). However, the investment of such assets is subject to the laws established by the State of California pertaining to investments by local agencies as well as the City's primary investment objectives.

VI. Reporting

The City Administrator or designee shall submit a regular report to the City Council. The report will provide a clear picture of the status of the current investment portfolio. The report may include the following information on investments:

- Type of investment (i.e. U.S. Treasury security, commercial paper);
- Issuer name;
- Date of maturity;
- Par and dollar amount invested in all securities, and investments and monies;
- A description of the funds, investments, and programs (including lending programs) managed by contracted parties (i.e. LAIF, investment pools, outside money managers, and securities lending agents);
- Current market value as of the date of the report of all funds held by the local agency and under the management of any outside party that is not also a local agency or LAIF and the source of the valuation;
- A statement of compliance with the investment policy or an explanation of non-compliance.

VII. Qualified Dealers

The City shall transact investment business only with banks, savings and loans, and registered securities dealers. All financial institutions and broker/dealers who desire to become bidders for investment transactions must supply the City with the following:

- Audited financial statements
- Proof of National Association of Security Dealers' certification
- Trading resolution
- Proof of California registration
- Certification of having read the City of Piedmont's Investment Policy
- Résumé of employees who will be engaged in transactions with the City

A periodic review of the financial condition and registrations of qualified bidders shall be conducted. An annual certification of having read the City's Investment Policy shall be required by all brokers/dealers.

The Finance Director shall review on a quarterly basis the LAIF report regarding its investments and the market value thereof and obtain and review the State Treasurer's investment policy and annual audited financial report as it pertains to LAIF.

VIII. Review

This Investment Policy will be reviewed on a regular basis by the City Administrator, who shall recommend amendments, as may be necessary, to the City Council.

Adopted:

Initiated by: Finance Director

Approved by:

INVESTMENT TYPE	MAXIMUM MATURITY	MAXIMUM % OF PORTFOLIO	MINIMUM QUALITY REQUIREMENTS
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations— CA And Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S Agency Obligations	5 years	None	None
Bankers' Acceptances	180 days	40%	None
Commercial Paper— Pooled Funds	270 days	40% of the agency's money	Highest letter and number rating by an NRSROH
Commercial Paper— Non-Pooled Funds	270 days	25% of the agency's money	Highest letter and number rating by an NRSROH
Negotiable Certificates of Deposit	5 years	30%	None
Non-negotiable Certificates of Deposit	5 years	None	None
Placement Service Deposits	5 years	30%	None
Placement Service Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements and Securities Lending Agreements	92 daysL	20% of the base value of the portfolio	None
Medium-Term Notes	5 years	30%	"A" rating category or its equivalent or better
Mutual Funds And Money Market Mutual Funds	N/A	20%	Multiple
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	"AA" rating category or its equivalent or better
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	Multiple
Local Agency Investment Fund (LAIF)	N/A	None	None
Voluntary Investment Program Fund	N/A	None	None
Supranational Obligations	5 years	30%	"AA" rating category or its equivalent or better

CITY OF PIEDMONT
Policy & Procedure

Policy No. 12
Section: Administration/Finance

SUBJECT: Investment Policy

Policy

It is the intent of the city council to provide guidelines for the prudent investment of the city's temporary idle cash, and outline the policies for maximizing the efficiency of the city's cash management system. The ultimate goal is to enhance the economic status of the city while protecting its pooled cash.

The city's cash management system monitors and forecasts expenditures and revenues, thus enabling the city to invest funds to the fullest extent possible. The city attempts to obtain the highest yield obtainable as long as investments meet the criteria established for safety and liquidity.

Procedures

1. The City of Piedmont operates its temporary pooled idle cash investments under the prudent man rule (Civil Code Sec. 2261 et seq.).
2. Investments may be made in the following media:
 - a. Securities of the U.S. government, or its agencies
 - b. Certificates of Deposit (or time deposits) placed with commercial banks and/or savings and loan companies
 - c. Negotiable certificates of deposit
 - d. Bankers acceptance
 - e. Commercial paper
 - f. Local agency investment fund (state pool) demand deposits
 - g. Repurchase agreements (repos)
 - h. Passbook savings account demand deposits
3. Criteria for selecting investments and the order of priority are:
 - a. Safety. The safety and risk associated with an investment refer to the potential loss of principal, interest or a combination of these amounts. The city only operates in those investments that are considered very safe.
 - b. Liquidity. This refers to the ability to "cash in" at any moment in time with a minimal chance of losing some portion or principal or interest. Liquidity is an important investment quality especially when the need for unexpected funds occurs occasionally.
 - c. Yield. Yield is the potential dollar earnings an investment can provide, and sometimes is described as the rate of return.

4. Securities purchased from brokers/dealers shall be held in third party safekeeping by the trust department of the local agency's bank or other designated third party trust, in local agency's name and control, whenever possible.
- 5 The cash management system of the City of Piedmont monitors and forecasts expenditures and revenues, thus insuring the investment of monies to the fullest extent possible. Attempts to obtain highest interest yields possible as long as investment meet the criteria required for safety and liquidity. The city strives to maintain the level of investment of all funds as near 100% as possible through daily and projected cash flow determinations.
- 6 Idle cash management and investment transaction are the responsibility of the City Finance Director

Initiated by: Finance Department

Approved by: City Council

Date: November 17, 1986