



Administrative Report

H.8., File # 20-1245

Meeting Date: 8/18/2020

To: MAYOR AND CITY COUNCIL
From: STEVEN DIELS, CITY TREASURER

TITLE

ANNUAL REVIEW AND ADOPTION OF CITY'S STATEMENT OF INVESTMENT POLICY, AS AMENDED

EXECUTIVE SUMMARY

The City Treasurer strives to maintain a well-balanced and diversified investment portfolio that meets the investment criteria and performance objectives of the City's Statement of Investment Policy.

The governing body of public funds should regularly review and approve investment guidelines. The City Council approves the City's Statement of Investment Policy annually.

California Government Code Section 53646(a)(2) states that the treasurer or chief fiscal officer of a local agency may annually render to his/her legislative body and any oversight committee an investment policy, that the legislative body shall consider at a public meeting. This raises questions about whether or not the policy should be adopted officially by the legislative body, and the time during the year that this "consideration" should take place.

The consensus recommendation of the California Debt and Investment Advisory Commission (CDIAC) states: "An investment policy should always be in place. While not required by statute, it is in the best interest of the local agency to present and discuss the policy with the agency's legislative body or oversight committee, and then have the policy approved by a vote of the legislative body. A public vote signifies that the legislative body shares fiduciary responsibility with the treasurer, increases the authority and legitimacy of the investment policy, and provides transparency and disclosure."

Section IV.B. of the City's Investment Policy specifies that the City Treasurer present the City's statement of investment policy for annual review and adoption by the City Council, as well as annual review by the Budget and Finance Commission. Review of the investment policy incorporates input and analysis of the State of California government code; Legislative changes impacting investment management enacted in 2015-16; and information from the California Debt and Investment Advisory Committee's (CDIAC) annual update of local agency investment policy guidelines. Local Agency Investment Guidelines may be found at: <http://www.treasurer.ca.gov/cdiac/LAIG/guideline.pdf>.

The City Treasurer recommends amendments to the current investment policy to increase investment portfolio performance, enhance diversification, maintain liquidity, and to comply with the State Government Code. The City Attorney recommends amendments to the current investment policy to improve clarity, and to adhere to the municipal code among other governing laws, regulations and best practices.

BACKGROUND

Section XV of the City's Statement of Investment Policy calls for the annual review of the investment policy by both the City Council and the Budget and Finance Commission, to ensure the policy's consistency with the overall objectives of preservation of investment principal, liquidity, and yield; relevance to current financial and economic trends; and ability to meet the cash flow operational needs of the City. Section XV of the investment policy further states that following review of the investment policy, in accordance with the requirements of the California Government Code, the City Council will adopt the City's statement of investment policy, inclusive of any annual recommended amendments responding to legislative changes impacting the manner of investment of public funds.

The City Treasurer Recommends the following amendments to the City's investment policy for adoption:

1. Material change on page one to add another potential condition to redeem a security before maturity. We added the final bullet point: Liquidity needs of the City require that the security be sold.
2. Removed rating requirement from CD's above FDIC limit of \$250,000 since we cannot invest beyond the FDIC limit.
3. Substituted the term "pool" for "investment portfolio" throughout
4. Added terminology for consistency and clarification.
5. Changed Qualified Brokers name in Exhibit B from FTN Financial Main Street Advisors to FHN Financial Main Street Advisors.
6. Remove CalTrust from the Investment Policy

These are reasons listed both in GIOA and GFOA's model policies. Here is the change:

1. It is recognized that within a well-diversified portfolio, at any particular point in time, that security valuations are impacted by changes in interest rates and economic conditions. Accordingly, securities may at times be worth less than original purchase price based on market fluctuations. Recognizing these factors, it is the expressed intention of our investment policy to hold all investments to maturity to ensure the return of all invested principal dollars. Securities shall generally be held until maturity with the following exceptions:
- A security with declining credit may be sold early to minimize loss of principal.
 - A security swap may be executed if it will increase the quality, yield, or target duration in the portfolio.
 - **Liquidity needs of the City require that the security be sold**

Another minor change includes:

E. Negotiable Certificates of Deposit

Maximum of 30%

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| <p>Negotiable certificates of deposit issued by a nationally or State Federal Savings and Loan Association. Purchases of FDIC insured negotiable deposits will be insured up to the FDIC limit, which is currently \$250,000. \$250,000 of the Pool may be invested in negotiable certificates of deposit savings and loan association. Negotiable Certificates of Deposits maximum limit is in aggregate with Certificate of Deposit Placement Service investments.</p> | <p>-Chartered Bank or a State or le certificates of No more than in any one bank or thirty percent (30%)</p> |
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Removed from the paragraph above:

Any purchase of negotiable certificates of deposits above the FDIC limit shall be rated A1 or higher by S&P or fitch, or P1 by Moody's. Since we are not able to invest more than \$250,000, this sentence is omitted.

Removed CalTRUST Short Term fund from the Investment Policy as an acceptable investment vehicle.

The additional changes such as substituting the term "pool" for "investment portfolio" throughout are meant for maintaining consistency and clarification. Also, FTN Financial Main Street Advisors is now FHN Financial Main Street Advisors so we have made the appropriate changes in Exhibit B.

COORDINATION

The City's statement of investment policy, as amended, was reviewed by the City Attorney.

FISCAL IMPACT

There is no direct fiscal impact as a result of the review and approval of this amended Investment

Policy.

APPROVED BY:

Joe Hoefgen, City Manager

ATTACHMENTS

Exhibit A - Draft City of Redondo Beach Statement of Investment Policy 2020

Exhibit B - Registered investment advisor and list of qualified brokers from which the City may purchase investments.

Exhibit C - Investment Procedures Manual

Exhibit D - PowerPoint Presentation