



CITY OF WHEATLAND

CITY COUNCIL MEETING STAFF REPORT

March 26, 2024

SUBJECT: Annual Review of City of Wheatland's Investment Policy

PREPARED BY: Steve Wong, Finance Director

Background

The City's investment policy is reviewed annually by the Finance Director. Any updates to the policy are brought to Council for approval. The policy was most recently reviewed and received last year by the Council at its April 11, 2023 meeting. Following my review, **no amendments or updates to the policy are recommended at this time.** The City's investment policy must follow the requirements set forth under State law (State Government Code, Sections 53600 *et seq*) which specifies allowable investments for cities. A city may place additional restrictions on their allowable investments. The list of allowable investments approved previously by Council is in the chart below. The City has most of its cash and investments in the Five Star Bank Money Market Fund with instant liquidity and the State Local Agency Investment Fund (LAIF) which is fully compliant with the State Government Code provisions, has next-day access to funds, with both accounts returning yields comparable to other short-term money market funds.

The chart below lists the investments allowed by the State and those allowed under the City's existing investment policy.

ALLOWABLE INVESTMENTS UNDER STATE LAW	MAXIMUM MATURITY	MAXIMUM % OF PORTFOLIO	COUNCIL AUTHORIZED INVESTMENTS PER <u>EXISTING</u> POLICY
Local Agency Bonds	5 years	None	
U.S. Treasury Obligations	5 years	None	✓
State and Local Agency Obligations	5 years	None	
U.S. Agency Obligations	5 years	None	✓
Bankers' Acceptances	180 days	40%	✓
Commercial Paper – Pooled Funds	270 days	25%	
Commercial Paper – Non-Pooled Funds	270 days	25%	✓
Negotiable Certificates of Deposit	5 years	30%	✓
Non-negotiable Certificates of Deposit	5 years	20%	✓
Placement Service Deposits	5 years	30%	
Repurchase Agreements	1 year	None	

Reverse Repurchase Agreements	92 days	20%		
Medium-Term Notes	5 years	30%		
Mutual Funds/Money Market Mutual Funds	N/A	20%	✓	
Collateralized Bank Deposits	5 years	None	✓	
Mortgage Pass-Through Securities	5 years	20%		
County and JPA Pooled Investment Funds	N/A	None	✓	
Local Agency Investment Fund (LAIF)	N/A	None	✓	
Supranational Obligations	5 years	30%		

As authorized in Government Code Section 53607, the City Council delegates the authority to invest funds of the City to the Finance Director and/or any duly appointed Deputy Treasurer. The Finance Director/City Treasurer and any duly appointed Deputy City Treasurer shall make all investment decisions and transactions in accordance with State law and this investment policy. The Finance Director has designated the City Manager as Deputy City Treasurer for the purpose of carrying out investment transactions at such times as the Finance Director is unavailable. It is the City's practice to have at least two of the following staff, the Finance Director, Senior Accountant, City Clerk and/or City Manager, prepare, review and authorize all investment transactions.

An investment report is to be provided to the Council on a quarterly basis, the report is to include the eight items listed in section XII of the policy.

Alternatives

Direct staff to change the attached investment policy to include or remove certain investment options.

Fiscal Impact

There is no direct fiscal impact with the annual review of the investment policy. While the City has most of its cash and investments in the money market and LAIF investment options, utilization of other allowable investment options meeting the City's criteria of safety, liquidity and yield are regularly being considered as time allows.

Attachment

1. City of Wheatland Investment Policy

City of Wheatland, California
Investment Policy
Adopted August 28, 2018

I. INTRODUCTION

The City of Wheatland was incorporated in 1874 and is located in the northeastern edge of California's vast Sacramento Valley. The City operates under a Council-Manager form of government and provides municipal services that include public safety, public works, parks and recreation, water, wastewater, and community development. The City Council consists of five members with the position of Mayor and Vice Mayor chosen by the Council. The Council serves as the policy board for the City.

The City of Wheatland has a fiduciary responsibility to maximize the productive use of assets entrusted to its care and to invest and manage those public funds wisely and prudently with the overriding objectives to preserve principal and provide sufficient liquidity while seeking a market-rate of return. The purpose of this investment policy is to identify various policies and procedures that will foster a prudent and systematic investment program designed to seek the City of Wheatland's objectives of safety, liquidity and yield through a diversified investment portfolio. This policy also serves to organize and formalize the City's investment-related activities, while complying with all applicable statutes governing the investment of public funds.

II. OBJECTIVES

The City's overall investment program shall be designed and managed with a degree of professionalism worthy of the public trust. The overriding objectives in order of priority shall be:

Safety. Safety of principal is the foremost objective of the investment program. Investments will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

Liquidity. The investment portfolio will remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

Yield. Yield should become a consideration only after the basic requirement of safety and liquidity have been met. The investment portfolio will be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints for safety and liquidity needs.

III. SCOPE

This investment policy covers all funds and investment activities under the direct authority of the City, as set forth in the State Government Code, Sections 53600 *et seq.*, with the following exceptions:

- Retirement Plans offered to City Employees including the 457 Deferred Compensation Plan and the 401(a) Defined Contribution Plan are excluded because the Plans are administered by a third-party administrator and held in trust for the exclusive benefit of participants and are not assets of the City.
- Proceeds of debt issuance shall be invested in accordance with the City's general investment philosophy as set forth in this policy; however, such proceeds are to be invested pursuant to the permitted investment provisions of their specific bond indentures.
- Any other funds specifically exempted by the City Council.

IV. POOLING OF FUNDS

Except for cash in certain restricted and special funds, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration.

Investment income shall accrue solely to the General Fund except where required by law, or other binding agreement, in which case interest shall accrue to other funds based upon the fund's proportionate ratio of balances to total pooled cash. Investment income shall be credited quarterly.

V. DELEGATION OF AUTHORITY

Authority to manage the City's Investment program is derived from California Government Code Sections 53600 *et seq.* The City Council is responsible for the policy level management of City funds, including the adoption and review of this investment policy. The day-to-day management of idle cash and investment transactions is the responsibility of the Finance Director/City Treasurer. As authorized in Government Code Section 53607, the City Council delegates the authority to invest funds of the City to the Finance Director/City Treasurer and/or any duly appointed Deputy Treasurer. The City Treasurer and any duly appointed Deputy City Treasurer shall make all investment decisions and transactions in accordance with State law and this investment policy. The Finance Director/City Treasurer has designated the City Manager as Deputy City Treasurer for the purpose of carrying out investment transactions at such times as the Finance Director/City Treasurer is unavailable.

The City shall strive to maintain the level of investment of all idle funds as near 100 percent as possible through daily and projected cash flow determinations. The City's cash management system should monitor and forecast revenues and expenditures, thus insuring the investment of monies to the fullest extent possible. The Finance Director will be responsible for all transactions undertaken and will establish a system of procedures and controls to regulate the activities of subordinate employees. Such procedures will include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and procedures determined by the Finance Director to be consistent with this policy.

VI. PRUDENCE

Pursuant to California Government Code Section 53600.3, all persons authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to the Prudent Investor Standard:

"...all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. 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 City, 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 City. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

VII. ETHICS AND CONFLICTS OF INTEREST

Employees and officials involved in the investment process shall at all times comply with each of

the following:

- Recognize that the process is subject to public review
- Act as a custodian of the public trust
- Recognize that their professional duties, loyalties, and responsibility are solely to the City
- Submit to the City statements of economic interest under the Political Reform Act (Government Code section 81000 et seq.)
- Not engage in any activity or have any interest that could interfere with unbiased involvement in the investment process (e.g. by impairing their ability to make impartial investment decisions).

VIII. INTERNAL CONTROLS

The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Criteria for selecting Investments in priority order: Safety, Liquidity and Yield.

1. **Safety of principal:** The safety and risk associated with an investment refers to the potential loss of principal, interest, or a combination of these amounts. The City only utilizes investments that are considered very safe. Safety of principal shall be the foremost objective of this investment policy. Investments shall be made with the aim of avoiding capital losses due to issuer default; broker-dealer default; or market value erosion. Principal shall be preserved by mitigating:

- a. **Credit Risk**, the risk of loss due to the failure of the issuer of the security, shall be mitigated by investing in only the highest quality securities; by diversifying investments; and by pre-qualifying broker-dealers and public depositories; and
- b. **Market Risk**, the risk of loss due to a decline in bond prices because of rising market interest rates, shall be mitigated by structuring the portfolios so that issues mature concurrently with the City's anticipated cash requirements, thereby eliminating the need to sell securities prematurely on the open market.

2. **Liquidity:** This refers to the ability to convert an investment to cash at any moment in time with a minimal chance of losing some portion of principal or interest. An adequate percentage of the City's portfolio shall be maintained in investments that can be converted to cash if necessary to meet disbursement requirements without loss of principal or without incurring penalties.

3. **Yield or Return on Investments:** This is the potential dollar earnings an investment can provide, and sometimes is described as the "rate of return". Yield is a consideration in investment decisions only after the requirements of safety and liquidity have been met.

Quotes: Investing decisions shall be made only upon the receipt of at least three quotes from different sources for investments that meet the current investment need. When purchasing new issue Securities of the U.S. Government and its Agencies, quotes from different brokers are not required.

Maturity of investments: The amount of investments with long-term maturities (maturities greater than a year) is to be based on the estimated cash flow needs of the City to assure that liquidity needs are maintained. Maximum maturities are as specified in Government Code Section 53601

and are currently 5 years remaining to maturity at the time of purchase. Maturities exceeding this maximum require authorization by the City Council prior to purchase.

Safekeeping: To protect against potential losses due to failure of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all cash and securities in the City's portfolio shall be held in safekeeping in the City's name by a third-party custodian, acting as agent for the City under the terms of a custody agreement executed by the bank and the City. All investment transactions will require a safekeeping receipt or acknowledgment generated from the trade. The custodian shall provide a monthly report to the City listing all securities held in safekeeping with current market data and other information. The Finance Director shall implement procedures to review and reconcile the custodian statements on regular basis. The only exceptions to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; (ii) time certificates of deposit, and (iii) money mutual funds since the purchased securities are not deliverable.

Diversification: The purpose of having diversification of investments is to reduce the overall portfolio risks. The portfolio should consist of a mix of various types of securities, issuers and maturities.

IX. AUTHORIZED TYPES OF INVESTMENTS AND LIMITATIONS

The State of California Government Code Section 53600 et seq. defines the investments allowed for city funds. The City further limits authorized investments to the following:

1. Collateralized Deposits with financial institutions will be collateralized with pledged securities provided that the following criteria is met:
 - The maximum maturity does not exceed five years
2. United States Treasuries and other government obligations for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio that can be invested in this category provided that the following criteria is met:
 - The maximum maturity is five years
3. Federal Agencies 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. Examples of these securities include but are not limited to: Government National Mortgage Association, Federal National Mortgage Association, Federal Land Bank and Federal Farm Credit Banks and TVA bonds. There is no percentage limitation of the portfolio that can be invested in this category, provided the following criteria is met:
 - No more than 25% of the portfolio may be invested in any Agency/GSE issuer
 - The maximum maturity does not exceed five years
4. State of California Local Agency Investment Fund (LAIF), the City may invest up to the maximum amount per legal entity that is permitted by California Law.
5. Local Government Investment Pools (LGIP)
 - Other LGIPs are permitted provided that the City Council takes a separate action to authorize the LGIP and it is added to this policy
6. Non-Negotiable Certificates of Deposit in state or federally chartered banks, savings & loans, or credit unions, provided that the following criteria is met:
 - The amount per institution is limited to the maximum covered under Federal Deposit

- Insurance Corporation or the National Credit Union Administration
 - No more than 20% of the portfolio will be invested in a combination of federally insured and collateralized time deposits
 - The maximum maturity does not exceed five years
7. Non-Negotiable Certificates of Deposit in state or federally chartered banks, savings & loans, or credit unions *in excess of* insured amounts which are fully collateralized with securities in accordance with California law, provided that the following criteria is met:
- No more than 20% of the portfolio will be invested in a combination of federally insured and collateralized time deposits
 - The maximum maturity does not exceed five years
8. Negotiable Certificates of Deposit (certificates that can be sold in the secondary market), provided that the following criteria is met:
- The amount of the certificate insured up to the FDIC limit does not require any credit ratings
 - For any amount above the FDIC insured limit they must be issued by institutions which have short-term debt obligations are rated "A-1" or higher by at least one NRSRO; or long-term obligations are rated in the "A" category or higher by at least one NRSRO
 - No more than 30% of the total portfolio may be invested in negotiable certificates
 - No more than 5% of the portfolio may be invested in any issuer
 - The maximum maturity does not exceed five years
9. Mutual Funds and Money Market Mutual Funds that are registered with the Securities and Exchange Commission under the Investment Company Act of 1940, provided that the following criteria is met:
- Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs; or
 - Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by California Government Code Section 53601 and with assets under management in excess of \$500 million
 - No more than 20% of the total portfolio may be invested in these securities
10. Bankers' Acceptances, provided that the following criteria is met:
- They are issued by institutions which have short-term debt obligations rated "A-1" or higher by at least one NRSRO; or long-term debt obligations which are rated in the "A" category or higher by at least one NRSRO
 - No more than 40% of the portfolio may be invested in Bankers' Acceptances
 - No more than 5% of the portfolio may be invested in any issuer
 - The maximum maturity does not exceed 180 days
11. Commercial Paper, provided that the following criteria is met:
- The issuer is a corporation organized and operating in the United States with assets in excess of \$500 million
 - The securities are rated "A-1" or higher by at least one NRSRO
 - They are issued by corporations having long-term obligations rated in the "A" category or its equivalent or higher, if the issuer has long-term ratings, by at least one NRSRO
 - Has program-wide credit enhancements which may include, but not limited to, overcollateralization, letters of credit, or a surety bond
 - No more than 25% of the portfolio may be invested in Commercial Paper
 - No more than 5% of the portfolio may be invested in any issuer
 - The maximum does not exceed 270 days

X. PORTFOLIO MANAGEMENT STRATEGY

The Intent at the time of purchasing investments is that they are to be held until maturity. However, during the life of the investment, if market opportunities allow an investment to be sold at a gain while providing an acceptable yield on the reinvestment of the funds, then an investment may be sold and a new investment made prior to the maturity of the original investment.

XI. MAXIMUM MATURITY

The City will maintain a cash flow analysis to project the City's need for money. All money not required for immediate use will be invested to the greatest extent possible.

The City will not invest in securities maturing more than five years from the date of trade settlement, unless the City Council has by resolution granted authority to make such an investment at least three months prior to that investment.

XII. QUARTERLY REPORTING

City staff shall provide the City Council quarterly investment reports that provide a clear picture of the status of the current investment portfolio and which are in accordance with Government Code Section 53646 (b). The quarterly report shall include the following:

1. A listing of individual securities held at the end of the reporting period.
2. Yield to maturity of all investments listed.
3. Coupon, discount or earnings rate.
4. Par value, Amortized Book Value and Market Value.
5. A list of cash amounts in each City accounting fund that equals the total amount that the City has invested.
6. Monthly transactions for the period in accordance with California Government Code Section 53607
7. A statement of compliance with investment policy, including a schedule of any transactions or holding which do not comply with this policy or with the California Government Code, including a justification for their presence in the portfolio and a timetable for resolution
8. A statement regarding whether the portfolio will allow the City to have adequate funds to meet its cash flow requirements for the next six months

XIII. INVESTMENT POLICY ADOPTION AND REVIEW

The City of Wheatland's investment policy shall be adopted by resolution of the City of Wheatland's City Council. The policy shall be reviewed annually by the Finance Director/City Treasurer who will make recommendations to the City Council regarding any changes needed to address consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends. The Wheatland City Council must approve any modifications made thereto.

Reviewed with no modifications, April 11, 2023.