



**SAN RAFAEL CITY COUNCIL AGENDA REPORT**

Department: Finance

Prepared by: Nadine Atieh Hade,  
Finance Director

City Manager Approval: \_\_\_\_\_

**TOPIC: CITY INVESTMENT POLICY**

**SUBJECT: ANNUAL REVIEW AND RESOLUTION TO APPROVE THE CITY OF SAN RAFAEL INVESTMENT POLICY**

**RECOMMENDATION:** Accept report and adopt resolution as presented.

**BACKGROUND:** 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 City Council with an opportunity to review the City's current cash and investment management policies, changes recommended by the City's investment advisor and staff, and to formally approve the policy.

In January 2005, the City engaged Cutwater Asset Management to manage the long-term portion of the City's investment portfolio (Cutwater Asset Management transitioned to Insight Investment in 2015). These services were suspended in December 2011 because the City did not have sufficient cash to invest long-term under this advisory structure. The growth in fund balances since that time prompted the City to revive its contract with Cutwater beginning in March 2014. One of the services that Cutwater provides is assistance with the annual review of the City's investment policy. The policy was last reviewed on [June 15, 2020](#).

**ANALYSIS:** The California Government Code limits the types of investments open to local municipalities. The City's investment priorities – in order - are safety, liquidity and yield. The City pursues a fair market return on its investments after considering the security of investment principal, cash flow requirements and current investment portfolio structure.

The Investment Policy for 2022 has one recommended new addition or change from the 2021 Investment Policy. The City added a definition for "Total Portfolio" to include all investments and deposits including funds in any money market accounts and government pools such as LAIF. The sole purpose of this is to allow for concentration limitations to be properly calculated and administered on our fixed income portfolio with Insight Investments.

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**FOR CITY CLERK ONLY**

**Council Meeting:**

**Disposition:**

**FISCAL IMPACT:** There is no direct fiscal impact from accepting the policy as proposed.

**RECOMMENDATION:** Staff recommends that the Council adopt the resolution approving the investment policy as presented.

**ATTACHMENTS:**

1. Resolution
2. Exhibit A to Resolution: Investment Policy

I CERTIFY THAT ALL INVESTMENTS MADE ARE IN CONFORMANCE WITH THE CITY'S APPROVED INVESTMENT POLICY AND STATE INVESTMENT REGULATIONS. THE CITY HAS SUFFICIENT LIQUIDITY TO MEET ALL OF THE OBLIGATIONS REQUIRED DURING THE NEXT SIX-MONTH PERIOD.

A handwritten signature in blue ink that reads "Nadine Atieh Hade". The signature is written in a cursive style.

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NADINE ATIEH HADE  
FINANCE DIRECTOR

**RESOLUTION NO.**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SAN RAFAEL TO APPROVE THE CITY OF SAN RAFAEL INVESTMENT POLICY**

**WHEREAS**, the City Council of the City of San Rafael takes seriously its stewardship of the City's public resources and City's current cash management practices; and

**WHEREAS**, the City's Investment Policy requires consideration and approval of the investment policy annually; and

**WHEREAS**, all funds are invested in accordance with the investment policy and applicable sections of the California Government Code; and

**WHEREAS**, the investment policy is intended to provide a long-term strategy for prudent care of the City's cash;

**NOW, THEREFORE, BE IT RESOLVED** that the City Council of the City of San Rafael hereby adopts the updated Investment Policy that is attached hereto as Exhibit A.

I, **LINDSAY LARA**, Clerk of the City of San Rafael, hereby certify that the foregoing resolution was duly and regularly introduced and adopted at a regular meeting of the City Council of said City held on Monday the 7<sup>th</sup> day of June 2021, by the following vote, to wit:

AYES: COUNCILMEMBERS:

NOES: COUNCILMEMBERS:

ABSENT: COUNCILMEMBERS:

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LINDSAY LARA, City Clerk

# City of San Rafael Investment Policy

PROPOSED June 7, 2021

The City Council of the City of San Rafael (the City) has adopted this Investment Policy (the Policy) in order to establish the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, eligible investments and transactions, diversification requirements, risk tolerance, and safekeeping and custodial procedures for the investment of the funds of the City. All such funds will be invested in accordance with this Policy and with applicable sections of the California Government Code. This Policy was endorsed and adopted by the City Council on the approved date noted above. It replaces any previous investment policy or investment procedures of the City.

## SCOPE

It is intended that this Policy cover all short-term operating funds and investment activities of the City. These funds are accounted for in the annual audit report, and include:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Projects Funds
- Enterprise Funds
- Internal Service Funds
- Fiduciary Funds

Additional funds that may be created from time to time shall be administered in accordance with the provisions of this Policy.

All cash shall be pooled for investment purposes. The investment income derived from the pooled investment account shall be allocated to the contributing funds based upon the proportion of the respective average balances relative to the total pooled balance in the investment portfolio. Investment income shall be distributed to the individual funds not less than annually.

## OBJECTIVES

The City's funds shall be invested in compliance with all applicable City 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 value rate of return.
4. Diversification to avoid incurring unreasonable market risks.

## **DELEGATION OF AUTHORITY**

The management responsibility for the City's investment program is delegated annually by the City Council to the Treasurer pursuant to California Government Code Section 53607. The Treasurer may delegate the authority to conduct investment transactions and to manage the operation of the investment portfolio to other specifically authorized staff members. The Treasurer shall maintain a list of persons authorized to transact securities business for the City. No person may engage in an investment transaction except as expressly provided under the terms of this Policy.

The City Manager and the Treasurer jointly shall develop written administrative procedures and internal controls, consistent with this Policy, for the operation of the City's investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the City.

The City may engage the support services of outside investment advisors in regard to its investment program, so long as it can be clearly demonstrated that these services produce a net financial advantage or necessary financial protection of the City's financial resources.

## **PRUDENCE**

The standard of prudence to be used for managing the City'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 City's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City recognizes that no investment is totally without risk and that the investment activities of the City are a matter of public record. Accordingly, the City 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 City.

The Treasurer and authorized investment personnel acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that the deviations from expectations are reported in a timely fashion to the City 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 City Manager any business interests they have in financial institutions that conduct business with the City and they shall subordinate their personal investment transactions to those of the City. In addition, the City 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 SECURITIES AND TRANSACTIONS

All investments and deposits of the City 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 City investment practices, the City may delay adherence to the new requirements when it is deemed in the best interest of the City to do so. In such instances, after consultation with the City's attorney, the City Manager and the Treasurer will present a recommended course of action to the City Council for approval. **In accordance with California Government Code listed above, the "Total Portfolio" includes all investments and deposits including funds in any money market accounts and governmental pools such as LAIF. Any percentage limitations are deemed to be calculated on the "Total Portfolio" and are measured based on the cost of the investment at the time of purchase.**

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

1. United States Treasury bills, notes and bonds with a final maturity not exceeding five years from the date of trade settlement.
2. Federal Agency securities with a final maturity not exceeding five years from the date of trade settlement.
3. Federal Instrumentality (government sponsored enterprise) debentures, discount notes, callable and step-up securities, with a final maturity not exceeding five years from the date of trade settlement.
4. Mortgage and Asset-Backed Obligations: Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable-pass-through certificate, or consumer receivable-backed bond with a final maturity not exceeding five years from the date of trade settlement. Investments in mortgage and asset-backed obligations shall be

issued by an issuer rated at least “A” or the equivalent by a nationally recognized statistical rating organization (NRSRO) and the security shall be rated at least “AA” or the equivalent by a NRSRO. Purchases of securities authorized by this section may not exceed 20% of the City’s total portfolio.

5. Supranational Securities: United States dollar denominated, senior unsecured and unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum maturity not exceeding five years from the date of trade settlement, and eligible for purchase and sale within the United States. Investments in supranational securities shall be rated at least “AA” or the equivalent by a NRSRO and shall not exceed 15% of the City’s total portfolio.
6. Medium-Term Notes 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, with a final maturity not exceeding five years from the date of trade settlement, and rated at least “A” or the equivalent by a NRSRO. No more than 5% of the portfolio shall be invested in medium-term notes of any one issuer, and the aggregate investment in medium-term notes shall not exceed 30% of the City’s total portfolio.
7. Negotiable Certificates of Deposits (CDs) of commercial banks rated at least A-1, or the equivalent, with maturities not exceeding five years from the date of trade settlement. In addition, the City may not invest in the CD of a state or federal credit union where any person with investment decision making authority at the City also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit. No more than 5% of the portfolio may be invested in the CDs of any one issuer, and the aggregate investment in CDs shall not exceed 30% of the portfolio.
8. Non-negotiable Certificates of Deposit and savings deposits with a maturity not exceeding five years from the date of trade settlement, in FDIC insured state or nationally chartered banks or savings banks that qualify as a depository of public funds in the State of California as defined in California Government Code Section 53630.5. No more than 5% of the portfolio may be invested in the CDs of any one issuer, and the aggregate investment in CDs shall not exceed 30% of the portfolio.

Deposits in excess of the insured amount shall be secured pursuant to California Government Code Section 53651 and 53652. The City shall comply with and act to secure compliance with the security (collateralization) system specified in the Government Code Section 53649 and 56652.

Deposits may be placed using a private sector entity that assists in the placement of deposits per section 53601.8 and 53635.8 in the Government Code. No more than 5% of the portfolio may be invested through any one private sector entity that assists in the placement of such deposits and the aggregate investment in CDs shall not exceed 30% of the portfolio.



9. Special Assessment District Obligations issued by the City of San Rafael as Limited Obligation Improvement Bonds related to special assessment districts and special tax districts. Investment in such obligations requires the approval of the City Council and maturities may extend to 30 years from the date of trade settlement.
10. Prime Commercial Paper with a maturity not exceeding 270 days from the date of purchase with 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 in either sub-paragraph A. or sub-paragraph B. below:
  - A. The entity shall (1) be organized and operating in the United States as a general corporation, (2) have total assets in excess of five \$500,000,000 and (3) Have debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.
  - B. The entity shall (1) be organized within the United States as a special purpose corporation, trust, or limited liability company, (2) have program-wide credit enhancements, including, but not limited to, over collateralization, letters of credit or surety bond and (3) have commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO.

Purchases of eligible commercial paper may not represent more than 10% of the outstanding commercial paper of any single corporate issuer. No more than 5% of the City's total portfolio, shall be invested in the commercial paper of any one issuer, and the aggregate investment in commercial paper shall not exceed 25% of the City's total portfolio.

11. Eligible Banker's Acceptances issued by FDIC insured commercial banks, rated at least A-1 or the equivalent by a NRSRO with maturities not exceeding 180 days from the date of purchase. If issuers have senior debt outstanding, it shall be rated at least A or the equivalent by a NRSRO. No more than \$2,000,000 shall be invested in banker's acceptances of any one commercial bank, and the aggregate investment in banker's acceptances shall not exceed 40% of the City's total portfolio.
12. Repurchase Agreements with a final termination date not exceeding one year collateralized by U.S. Treasury obligations, Federal Agency securities, or Federal Instrumentality securities listed in items 1, 2 and 3 above with the maturity of the collateral not exceeding five years. For the purpose of this section, the term collateral shall mean purchased securities under the terms of the City's approved Master Repurchase Agreement. The purchased securities shall have a minimum market value including accrued interest of 102% of the dollar value of the funds borrowed. Collateral shall be held in the City's custodian bank, as safekeeping agent, and the market value of the collateral securities shall be marked-to-the-market daily.

Repurchase Agreements shall be entered into only with broker/dealers who are recognized as Primary Dealers by the Federal Reserve Bank of New York or have a primary dealer within their holding company structure. Repurchase agreement counterparties shall execute a City approved Master Repurchase Agreement with the City.

The Treasurer shall maintain a copy of the City's approved Master Repurchase Agreement along with a list of the broker/dealers who have executed same.

13. State of California's Local Agency Investment Fund (LAIF), pursuant to California Government Code Section 16429.1.
14. Money Market Funds registered under the Investment Company Act of 1940 that (1) are "no-load" (meaning no commission or fee shall be charged on purchases or sales of shares); (2) have a constant daily net asset value per share of \$1.00; (3) invest only in United States Treasury securities, United States Agency securities and Federal Instrumentality securities and (4) have a rating of at least AAA or the equivalent by at least two NRSROs. The aggregate investment in money market funds shall not exceed 10% of the City's total portfolio.

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

## **PORTFOLIO MATURITIES AND LIQUIDITY**

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities. The City will not invest in securities maturing more than five years from the date of purchase, unless the City Council has by resolution granted authority to make such an investment at least three months prior to the date of investment.

## **SELECTION OF BROKER/DEALERS**

The Treasurer shall maintain a list of broker/dealers authorized for investment purposes, and it shall be the policy of the City 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).

The City may engage the services of investment advisory firms to assist in the management of the portfolio and investment advisors may utilize their own list of approved Broker/Dealers. Such Broker/Dealers will comply with the selection criteria above and the list of approved firms shall be provided to the City on an annual basis or upon request.

In the event that an external investment advisor is not used in the process of recommending a particular transaction in the City's portfolio, authorized broker/dealers shall attest in writing that they have received and reviewed a copy of this policy and annually update a City approved Broker/Dealer Information Request form which includes the firm's most recent financial statements. The Treasurer shall maintain a list of the broker/dealers that have been approved by the City, along with each firm's most recent broker/dealer Information Request form.

The City may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in Item 5 of the Authorized Securities and Transactions section of this Policy.

### **COMPETITIVE TRANSACTIONS**

Each investment transaction shall be competitively transacted with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction and their bid and offering prices shall be recorded.

If the City is offered a security for which there is no other readily available competitive offering, the Treasurer will document quotations for comparable or alternative securities.

### **SELECTION OF BANKS**

The Treasurer shall maintain a list of banks that are approved to provide banking services for the City. 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 in California Government Code Section 53630.5.

### **SAFEKEEPING AND CUSTODY**

The Treasurer shall select one or more banks to provide safekeeping and custodial services for the City, in accordance with the provisions of Section 53608 of the California Government Code. A Safekeeping Agreement approved by the City shall be executed with each custodian bank prior to utilizing that bank's safekeeping services. Custodian banks will be selected on the basis of their ability to provide services for the City's account and the competitive pricing of their safekeeping related services.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. All securities shall be perfected in the name of the City. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities purchased by the City will be delivered by book entry and will be held in third-party safekeeping by a City approved custodian bank, or its Depository Trust Company (DTC) participant account.

The City's custodian shall be required to furnish the City 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. The performance of the City'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 City's portfolio, its rate of return will be computed net of all fees and expenses.

## **REPORTING**

On a quarterly basis, the Treasurer shall submit to the Council a report of the investment earnings and performance results of the City's investment portfolio. The report shall include the following information:

1. Investment type, issuer, date of purchase, purchase price, date of maturity, par value, current rate of interest and dollar amount invested in all securities, and investments and monies held by the City;
2. A description of the funds, investments and programs;
3. A market value as of the date of the report (or the most recent valuation as to assets not valued monthly) and the source of the valuation;
4. Overall portfolio yield based on historical cost;
5. Weighted average final maturity and weighted average effective maturity;
6. A statement of compliance with this Policy or an explanation for not-compliance;
7. A description of any of the City's funds, investments or programs that are under the management of contracted parties, including lending programs; and
8. 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.

The Treasurer shall submit to the Council a report of any changes affecting more than 15% of the investment portfolio within 30 days of such change.

## **POLICY REVIEW**

This Investment Policy shall be reviewed and approved by City Council annually to ensure its consistency with the overall objectives of preservation of principal, liquidity, yield and diversification and its relevance to current law and economic trends. Any additional amendments to this Investment Policy shall be submitted to the City Council for approval.