

RESOLUTION NO. 62-2024

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PACIFICA
ACCEPTING ANNUAL REVIEW OF THE INVESTMENT POLICY**

WHEREAS, California Code Section 53646 (a) (2) requires the City Council's annual review and approval of the Investment Policy; and

WHEREAS, the City's current Investment Policy was adopted by the City Council in August 2017 and last reviewed in October 2018; and

WHEREAS, during the last audit cycle, the auditors noted that the revisions to the Investment Policy are needed to reflect the City's operational practices and quarterly Treasurer's reporting requirements; and

WHEREAS, staff has reviewed the investment policy to ensure any necessary updates have been incorporated; and

WHEREAS, the change in the investment policy this year is redlined and updated per the recommendation from the auditor's; and

NOW, THEREFORE, the City Council of the City of Pacifica does hereby approve the City of Pacifica's Investment Policy with changes for FY 2024-25 as contained in Exhibit A attached hereto.

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PASSED AND ADOPTED at a regular meeting of the City Council of the City of Pacifica, California, held on the 24th day of June, 2024, by the following vote:

AYES, Councilmembers: *Beckmeyer, Biver, Bigstyeck, Biles, Vaterlaus.*

NOES, Councilmembers: *n/a*

ABSENT, Councilmembers: *n/a*

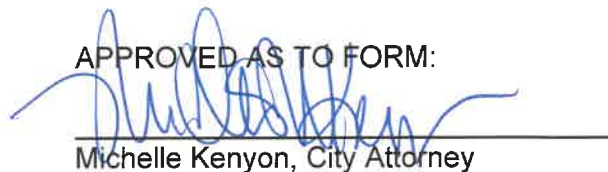
ABSTAIN, Councilmembers: *n/a*



Sue Vaterlaus, Mayor

ATTEST:


Sarah Coffey, City Clerk

APPROVED AS TO FORM:


Michelle Kenyon, City Attorney

 <p style="text-align: center;">CITY OF PACIFICA ADMINISTRATIVE POLICY</p>	<p>No. 39</p>
<p style="text-align: center;">INVESTMENT POLICY</p>	<p>DATE ISSUED: 02/89; 11/94; 12/96; 08/17, 10/18; <u>06/24</u></p>

I. PURPOSE

The purpose of this Investment Policy for the City of Pacifica (the City) is to provide guidance and direction for the prudent investment of City funds and to foster the creation of a systematic and controlled investment process. The ultimate goal is to maximize the efficiency of the City’s cash management system and to enhance the economic status of the City while protecting its pooled investment cash.

II. POLICY

It is the policy of the City of Pacifica to invest public funds in a manner which will provide maximum security, meet the daily cash flow demands of the City and provide reasonable investment return while conforming to all California laws and local statutes governing the investment of public funds. It is also the policy of the City that all funds not required for immediate budgeted expenditures be invested in compliance with this Investment Policy.

III. SCOPE

This Investment Policy applies to all short-term operating funds and investment activities under the direct authority of the City. These funds are described in the most current annual financial report and include: General Fund, Capital Projects Fund, Special Revenue Funds, Enterprise Funds, Internal Service Funds and Fiduciary Funds. This investment policy applies to all transactions involving the financial assets and related activities of the foregoing funds.

IV. PRUDENCE

The standard of prudence to be used for managing the City’s investment program is 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 Manager and other individuals assigned to manage the investment portfolio, acting in accordance with written procedures and this 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.

V. OBJECTIVES

The City's funds shall be invested in accordance with all applicable City policies and codes, state and local statutes and federal regulations, and in a manner designed to accomplish the following objectives, which are listed in priority order:

- A. **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure that capital losses are avoided, whether from securities default, broker-dealer default, or erosion of market value. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. The City may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions or the City's risk preferences.
- B. **Liquidity:** The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.
- C. **Return on Investment:** The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio.

VI. DELEGATION OF AUTHORITY

Section 53636 of the Government Code of the State of California provides that money on deposit is deemed to be in the treasury of the City. The responsibility for conducting the City's investment program resides with the City Manager or her/his designee.

VII. PUBLIC TRUST

All participants in the investment process shall act reasonably as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public scrutiny and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. Nevertheless, in a diversified portfolio, it must be recognized that occasional measured losses are inevitable, and must be considered within the context of the overall portfolio investment return, provided that adequate diversification has been implemented.

Investments are to be made that will bear in mind the responsibility of city government to its citizens. Investments that encourage the betterment of the human condition will be sought. Alternative investments that enhance the quality of life will be given full consideration. Investments that serve to only enrich a few to the detriment of the people will be strictly avoided.

VIII. ETHICS AND CONFLICT OF INTEREST

All personnel responsible for authorizing the purchase of investments shall refrain from personal business activities that could conflict with proper execution of the investment program and/or which could impair their ability to make impartial investment decisions. The City Manager and other key Finance personnel shall file a Statement of Economic Interests each year as required by California Government Code Section 87203 and regulations of the Fair Political Practices Commission.

[Any securities broker or dealer who has made a political contribution to any member of the City Council, or any candidate for those offices, in an amount that exceeds the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board (MSRB) within any consecutive 48-month period shall not engage in any securities transactions (purchase, sale and/or exchange) with the City.]

IX. QUALIFIED MONEY MANAGERS, FINANCIAL DEALERS AND INSTITUTIONS

The City may contract with professional money managers to assist in the management of all or part of its investment portfolio in compliance with the guidelines outlined in this Investment Policy. If City staff directly invests in individual securities, then the City will maintain a list of financial institutions and primary dealers authorized to provide investment services. Professional money managers working with the City may maintain their own list. Primary dealers include those that regularly report to the Federal Reserve Bank and should qualify under Securities and Exchange Commission Rule 15c3-1 (uniform net capital rule).

All financial institutions, dealers and cash managers who desire to become qualified bidders for investment transactions must supply the City with the following: audited

financial statements, proof of Financial Industry Regulatory Authority (FINRA) certification when applicable, trading resolution, proof of State of California registration when applicable, completed questionnaire and certification of having read the City of Pacifica's investment policy and depository contracts. A current audited financial statement is required to be on file for each financial institution and dealer.

The City shall send a copy of the current investment policy to all brokers/dealers approved to do business with the City. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the City's Investment Policy and intends to sell the City only appropriate investments authorized by this Investment Policy.

X. AUTHORIZED INVESTMENTS

All investments and deposits of City funds shall be made in accordance with California Government Code Sections 16429.1, 53600-53609 and 53630-53686. Within the context of code limitations, the following investments and their respective additional limitations are authorized:

Limitations identified in the following sections shall be adhered to and the percentage limits and credit criteria shall be measured against portfolio value on the date the investment is purchased. In the event of a credit downgrade below the minimum acceptable credit rating, the City shall require investment advisors, engaged in the investing of City funds, to notify City staff of the downgrade, and provide a plan of action to address the downgrade:

- A. Local Agency Obligations – 1) Bonds issued by the local agency, 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. 2) Bonds, notes, warrants, or other evidence of indebtedness of a 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. "Local agency" means county, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.
- B. United States Treasury bills, bonds and notes or those for which the full faith and credit of the United States are pledged for the payment of principal and interest. There is no limit on the percentage of U.S. Treasury obligations that may be held in the City's portfolio.
- C. State Obligations – 1) Registered state warrants or 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 the state or by a department, board, agency, or authority of the state. 2) Registered treasury notes or bonds of any of the other 49 states in addition to California, 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 any of the other 49 states, in addition to California, 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 any of the other 49 states, in addition to California.

- D. Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments (or Agencies), including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises with maturities not exceeding five years from the date of trade settlement.
- E. Banker's Acceptances with a maturity not exceeding 180 days from the date of trade settlement, drawn on or accepted by a FDIC insured commercial bank with combined capital and surplus of at least \$250 million, rated at least A-1 or the equivalent by a nationally recognized statistical rating organization (NRSRO) at the time of purchase and whose senior long-term debt is rated at least A or the equivalent by a NRSRO at the time of purchase. No more than 5% of the City's total portfolio shall be invested in banker's acceptances of any one issuer, and the aggregate investment in banker's acceptances shall not exceed 25% of the City's total portfolio.
- F. Commercial Paper of "prime" quality of the highest ranking or the highest letter and numerical rating as provided for by a nationally recognized statistical rating organization. Purchases must be limited to corporations organized and operating within the United States, having assets in excess of \$500 million and having an "A" or higher rating for the issuer's debentures, other commercial paper (as provided by Moody's or Standard and Poor's rating services). No more than 5% of the City's total portfolio may 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. The maximum maturity of commercial paper cannot exceed 270 days from the date of trade settlement.
- G. Shares of beneficial interest issued by diversified management companies, that are money market funds or money market mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.). To be eligible for investment pursuant to this subdivision these companies shall either: (1) attain the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally

recognized rating services or (2) retain an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience managing money market mutual funds with assets under management in excess of \$500 million.-

- H. State of California Local Agency Investment Fund. State of California's Local Agency Investment Fund (LAIF), pursuant to California Government Code Section 16429.1. There is no limit on the percentage of LAIF that may be held in the City's portfolio. LAIF investments are subject to statutory limits. The LAIF portfolio should be reviewed periodically.
- I. Shares of Beneficial Interest issued by a Joint Powers Authority, including the California Asset Management Program (CAMP) and CalTrust. The City can invest in this category, provided the City is a member of the Joint Powers Authority and therefore a voting member.
- J. 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. These notes must have a rating of at least "A" or the equivalent by a NRSRO. No more than 5% of the City's total portfolio shall be invested in medium term notes of any one issuer, and the aggregate investment in medium term notes shall not exceed 25% of the City's total portfolio.
- K. Non-Negotiable Certificates of Deposit - The City may invest a portion of its surplus funds in deposits at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of deposits, in accordance with Government Code 53601.8.
- L. Repurchase Agreements - "Repurchase agreement" means a purchase of securities by the local agency pursuant to an agreement by which the counterparty seller will repurchase the securities on or before a specified date and for a specified amount and the counterparty will deliver the underlying securities to the local agency by book entry, physical delivery, or by third-party custodial agreement. The transfer of underlying securities to the counterparty bank's customer book-entry account may be used for book-entry delivery. Investments in repurchase agreements may be made, on authorized investments, when the term of the agreement does not exceed 180 days.

XI. PROHIBITED INVESTMENTS

At the time of purchase, all permitted investments shall conform in all respects with this Investment Policy and with California Government Code Sections 53601, 53601.1, 53601.2, 53601.6, and 53635, as may be amended from time to time. No investment

prohibited by California Government Code shall be permitted herein.

Ineligible investments, those that are not described herein, including but not limited to, common stocks or long term (over five years in maturity) notes and bonds, are prohibited from use in this portfolio.

Types of securities or transactions not permitted include:

- A. Borrowing for investment purposes (leverage)
- B. Inverse floaters, leveraged floaters, equity-linked securities, event-linked securities, structured investment vehicles (SIV)

Exempt from this definition are simple FRNs whose periodic coupon adjustment is based on a short-term (one-year or less) rate index (such as Treasury bills, federal funds, prime rate or LIBOR) and which have a reasonable expectation of maintaining a value at par at each interest rate adjustment through final maturity. The following securities are also exempt from this definition: U.S. Treasury and Agency zero coupon bonds, U.S. Treasury and Agency strips, Resolution Funding Corporation (REFCORP) strips or other callable securities which otherwise meet quality, maturity and percent limitations assigned to their respective security category.

- C. Derivatives (e.g., swaptions, spreads, straddles, caps, floors, collars, etc.) shall be prohibited.)
- D. Trading of options and futures are prohibited

The City discourages investments in tobacco, fossil fuel, or weapons manufacturing companies, consistent with the policies/practices of the State Treasurer's Local Agency Investment Account/Pool Money Investment Account (LAIF/PMIA).

XII. SAFEKEEPING AND CUSTODY

All security transactions entered into by the City shall be conducted on a delivery versus payment (DVP) basis as evidenced by safekeeping receipts in the City's name and shall be delivered to the City or the City's designated custodian upon receipt of payment by the City.

XIII. DIVERSIFICATION

The City's investment portfolio shall be diversified to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or

maturities. See Attachment A for portfolio investment parameters.

XIV. INTERNAL CONTROLS

The Finance Department will establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by employees and officers of the City. Controls deemed most important include: control of collusion, segregation of duties, separating transaction authority from accounting and record keeping, custodial safekeeping, clear delegation of authority, written confirmation of telephone transactions, documentation of transactions and strategies and code of ethical standards.

XV. PERFORMANCE STANDARDS

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 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.

XVI. QUARTERLY REPORTING

Monthly Reporting

~~The City Manager or designee shall present a monthly report of investment transactions to the City Council.~~

Quarterly Reporting

The City Manager or designee shall present a quarterly report to the City Council no later than 30 days after the ~~end of each quarterly period~~ receipt of the last bank statement for the quarterly period. The report will provide a clear picture of the status of the current investment portfolio. The report shall include the following information on investments:

- Type of investment (e. g. U.S. Treasury security, commercial paper);
- Issuer name;
- Date of maturity;
- Weighted Average Maturity (WAM) of the portfolio;

- 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 for non-compliance; and
- A statement of the local agency's ability to meet its pool's expenditure requirements for the next six months, as well as an explanation of why sufficient money will not be available if that is the case.

XVII. REVIEW, ADOPTION & AMENDMENTS

The City's Investment Policy shall be adopted by resolution of the City Council. This Investment Policy shall be reviewed at least annually 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.

INVESTMENT POLICY GLOSSARY

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), Resolution Funding Corporation (REFCORP).

Local Agency Debt (Municipal and State Obligations) – Municipal notes, bonds, and other obligations are securities issued by state and local government agencies to finance capital and operating expenses.

Money Market Mutual Funds – Money market mutual funds (MMMFs), called shares of beneficial interest issued by diversified management companies, are mutual funds that invest exclusively in short-term money market instruments. MMMFs seek the preservation of capital as a primary goal while maintaining a high degree of liquidity and providing current income representative of the market for short-term investments. Industry officials may refer to their funds as "money market funds".

Bankers Acceptances (BAs) – Bankers’ acceptances (BAs) are money market instruments that are created in the course of bank financing transactions, particularly international trade financings. In creating a BA, a bank accepts responsibility for future payment of a draft or letter of credit issued in the course of a financing transaction, and then sells this obligation at a discount in the money market to an investor. The investor is shielded from the possibility of default on the part of the ultimate borrower because of the bank’s acceptance or guarantee of the BA at maturity.

Medium-term notes (MTNs) – Medium-term notes are debt obligations that are continuously offered in a range of maturities. Medium-term notes, 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. The California Government Code restricts local agencies to the purchase of medium-term notes that meet, among other things, certain term and quality standards.

Commercial Paper – Commercial paper (CP) 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.

Non-Negotiable Certificates of Deposit (NCDs) – A short-term, secured deposit in a financial institution that usually returns principal and interest to the lender at the end of the loan period. These CDs generally carry a penalty if redeemed prior to maturity.

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.

Shares of Beneficial Interest issued by a Joint Powers Authority – shares of beneficial interest are issued by the joint powers authority, with each share representing an equal proportional interest in the underlying pool of securities owned by the joint powers authority.

Repurchase Agreements – A repurchase agreement (repo) is a short-term purchase of securities with a simultaneous agreement to sell the securities back on a specified date at an agreed upon price.

ATTACHMENT A
SUMMARY OF PERMITTED INVESTMENTS

AUTHORIZED INVESTMENTS	MAXIMUM % HOLDINGS	PURCHASE RESTRICTIONS	MAXIMUM MATURITY	MINIMUM CREDIT RATINGS *
U.S. Treasury	100%	n/a	5 years	n/a
U.S. Agencies	100%	n/a	5 years	Aa / AA
Commercial Papers	25%	n/a	270 days	P-1 / A-1+
Negotiable CD's	25%	n/a	1 year	P-2 / A-1
Banker's Acceptances	25%	Domestic banks only	180 days	A / A
Fully Collateralized Time Deposits (FDIC insured)	100%	n/a	5 years	n/a
Fully Collateralized Money Market Bank Account	100%	n/a	daily liquidity	n/a
Money Market Funds	100%	NAV = \$1.00	daily liquidity	n/a
Medium Term Notes	25%	n/a	5 years	A for 3 years or less AA for over 3 years
Repurchase Agreements	25%	102% collateral; daily mark-to-market	180 days	n/a
Local Agency Investment Fund	100%	n/a	daily liquidity	n/a
California Asset Management Program (CAMP)	25%	n/a	daily liquidity (CAMP)	AAAm
CA Municipal Obligations	25%	Not issued by City or related City agency	2 years	Aa / AA