



Agenda Item A.5
CONSENT CALENDAR
Meeting Date: September 21, 2021

TO: Mayor and Councilmembers

FROM: Luke Rioux, Finance Director

SUBJECT: Annual Review and Adoption of City's Investment Policy

RECOMMENDATION:

Adopt Resolution No. 21-__ entitled, "A Resolution of the City Council of the City of Goleta, California Adopting the City of Goleta Investment Policy and Rescinding Resolution No. 20-03."

BACKGROUND:

The City's Investment Policy created in June 2005, serves as a guide for achieving the City's investment goals, and defines strategies, practices, authority, and procedures to be used for management of the City's investment portfolio in accordance with California Government Code (Government Code) Sections 53600-53610, which establish legally permitted investments for local governments statewide.

Annual review and adoption of a local agency's investment policy is a recommended best practice and is a requirement in the City's Investment Policy. It also gives the City Council the opportunity to ensure the policy is consistent with the overall primary objectives, which are, in order of priority: safety, liquidity, and yield. The City Council is authorized expressly to invest and manage the City's public funds pursuant to Government Code Section 53600.3. As provided in the Investment Policy, annually the City Council formally delegates authority to the City Treasurer/Finance Director to invest and reinvest funds and to sell or exchange securities for a one-year period, pursuant to Government Code Section 53607.

The City's Investment Policy was last revised and adopted on February 4, 2020, which included investment authority delegated to the City Treasurer/Finance Director.

At that time, revisions included updates to be consistent with industry best practices, provided by the California Debt and Investment Commission (CDIAC), California Municipal Treasurer's Association (CMTA) and Government Finance Officers Association (GFOA). The updates included no recommended statutory changes and only various policy and formatting updates. These updates included:

- 1) Adding a table of contents.

- 2) Various clean up language throughout the policy and reorganizing sections and including additional sections to enhance the understanding of the policy and incorporating other suitable investment options as allowed by state law.
- 3) Incorporation of other suitable investment options as allowed by state law, such as city issued bonds, medium-term notes, and county pooled investments.

The additional sections and format updates to the policy will allow the City to meet the standards of, and be considered for, the CMTA's California Municipal Treasurer's Investment Policy Certification Program. Including the additional investment options will enhance the City's investment program, should the City choose to pursue those investments at a future time. These recommended changes were made in accordance with the CMTA' and the CDIAC recommended best practices.

DISCUSSION:

Annually, staff reviews the City's Investment Policy and recommends revisions to the policy, as needed, to incorporate policy or statutory changes affecting the City's investment program and daily investing activities. Policy revisions are technical in nature, such as process changes or language clarifications. Statutory changes are updates in state law affecting allowable investments or procedures related to investing activities.

Currently, there are no policy revisions or statutory changes. Staff recommends the continued delegation of authority to the City Treasurer/Finance Director. As provided in the Investment Policy, Council formally delegates authority to the City Treasurer/Finance Director for a one fiscal-year period. Management and responsibility for the investment program is delegated to the City Treasurer/Finance Director. Under the authority granted by the City Council, no person may engage in investment transactions covered by the terms of this policy unless directed by the City Treasurer/Finance Director. All investment transactions shall also require the signature of the City Manager or designee and are subject to the authorized investments outlined in the Investment Policy.

The attached Resolution confirms the annual review and delegation of authority to staff to complete investment transactions (Attachment 1). The Investment Policy (Exhibit A to Attachment 1) is provided for reference.

Staff met with the Finance Committee on September 14, 2021 to review the Investment Policy. The committee members supported staff's recommendation to adopt the resolution.

FISCAL IMPACTS:

There are no fiscal impacts to the City for adopting the City's Investment Policy. The policy conforms to California Government Code and complies with best practices

designed to meet the City's short and long-term cash flow needs by managing safety, liquidity and yield in a prudent manner.

ALTERNATIVES:

Approval of the Investment Policy annually by the legislative body is required by City policy and is a recommended best practice. The Council may request alterations be made to any section as long as the revisions meet the requirements of Government Code.

Reviewed By:

Legal Review By:

Approved By:



Kristine Schmidt
Assistant City Manager



Michael Jenkins
City Attorney



Michelle Greene
City Manager

ATTACHMENTS:

1. Resolution No. 21-__ entitled, "A Resolution of the City Council of the City of Goleta, California, Adopting the City of Goleta Investment Policy and Rescinding Resolution No. 20-03."

ATTACHMENT 1

Resolution No. 21-__ entitled, "A Resolution of the City Council of the City of Goleta, California, Adopting the City of Goleta Investment Policy and Rescinding Resolution No. 20-03."

RESOLUTION NO. 21-__

A RESOLUTION OF CITY COUNCIL OF THE CITY OF GOLETA, CALIFORNIA, ADOPTING THE CITY OF GOLETA INVESTMENT POLICY AND RESCINDING RESOLUTION NO. 20-03

WHEREAS, On June 20, 2005, the City Council adopted and established a policy regarding the investment of City funds; and

WHEREAS, the City's Investment Policy was last modified on February 4, 2020; and

WHEREAS, staff recommends no changes to the investment policy, and renew the delegation of authority to the City Treasurer/Finance Director to manage the City's investment program and engage in investment transactions covered by the terms of the investment policy.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF GOLETA DOES RESOLVE, DETERMINE, AND ORDER AS FOLLOWS:

SECTION 1:

The attached Exhibit A, City of Goleta Investment Policy – Fiscal Year 2021/22, is hereby adopted and incorporate herein.

SECTION 2.

Resolution 20-03, which adopted a previous version of the City of Goleta Investment Policy, is hereby rescinded.

SECTION 3.

The City Clerk shall certify to the adoption of this resolution and enter it into the book of original resolutions.

PASSED, APPROVED AND ADOPTED this 21st day of September 2021.

PAULA PEROTTE, MAYOR

ATTEST:

APPROVED AS TO FORM:

DEBORAH S. LOPEZ
CITY CLERK

MICHAEL JENKINS
CITY ATTORNEY

STATE OF CALIFORNIA)
COUNTY OF SANTA BARBARA) ss.
CITY OF GOLETA)

I, DEBORAH S. LOPEZ, City Clerk of the City of Goleta, California, DO HEREBY CERTIFY that the foregoing Resolution No. 21-__ was duly adopted by the City Council of the City of Goleta at a regular meeting held on the 21st day of September, 2021 by the following vote of the Council:

AYES:

NOES:

ABSENT:

(SEAL)

DEBORAH S. LOPEZ
CITY CLERK



Statement of Investment Policy

Fiscal Year 2021/22

City of Goleta
Statement of Investment Policy
Fiscal Year 2021/22

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City of Goleta
Annual Statement of Investment Policy
Fiscal Year 2021/22

1.0 Purpose

It is the purpose of the City's investment policy to establish strategies, practices and procedures to be used in investing public funds in a prudent manner, which will provide the maximum security while meeting daily cash flow needs and conforming to all statutes governing the investment of public funds.

Secondly, this document will identify policies that enhance opportunities for a prudent and systematic investment of public funds. This policy is intended to guide the investment of City funds toward the goals of safety, liquidity and yield.

2.0 Policy

It is the policy of the City of Goleta, hereafter referred to as the "City", to invest public funds not required for immediate day-to-day operations, also referred to as idle funds, in safe and liquid investments having acceptable rates of return while conforming to all state statutes and this City's Investment Policy.

California Government Code Section 53646 (a)(2) states that the City Treasurer may annually submit an investment policy to the City Council for consideration at a public meeting. This investment policy conforms to all pertinent existing laws of the State of California, including California Government Code Sections 53600 et seq. Any conflict between this City Investment Policy and California Government Code Section 53600 et. seq., shall be interpreted in favor of the California Government Code.

3.0 Scope

This investment policy applies to all financial assets and investment activities of the City. These funds are reflected in the City's audited Comprehensive Annual Financial Report (CAFR). If the City invests funds on behalf of another agency and, if that agency does not have its own policy, the City's investment policy shall govern the agency's investments. Any additional funds that may be created from time to time shall also be administered within the provisions of this policy and comply with the California State Government Code. This policy covers the investment activities of idle funds under the direct authority of the City.

3.1 Funds Included by this Policy

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Fiduciary Funds

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3.2 Pooling of Funds

Except for cash in certain restricted and special funds, the City shall consolidate cash balances from all funds to maximize investment earnings. Investment income shall be allocated to various funds as identified in the investment procedures manual in accordance with generally accepted accounting principles.

3.3 Investments Held Separately

In some instances, investments cannot be included in the City's investment pool. These may include investments of bond proceeds. In such cases the funds will be held separately when required by law, contract or other authority.

4.0 Prudence

The City Treasurer is authorized to make investment decisions on behalf of the City investing public funds subject to the prudent investment standard. The Prudent Investor Standard of the California Government Code Section 53600.3 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 need of the [City], that a prudent person 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]". The standard of prudence to be used by investment officials shall be applied in the context of managing the overall portfolio.

Trustees are those persons authorized to make investment decisions on behalf of a local agency. Trustees or City investment officials, acting in accordance with written procedures, the investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk changes or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

5.0 Objectives

Section 53600.5 of the California Government Code outlines the primary objectives of a trustee investing public money. The primary objectives, in order of priority, of the City's investment activities shall be:

5.1 Safety

Safety of principal is the foremost objective of the investment program. Investments by the City shall be undertaken in a manner that seeks to

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ensure preservation of capital in the overall portfolio and reduce both credit and market risk. The type of investment instruments and diversification of investments are critical components to ensuring investment portfolio safety.

5.2 Liquidity

The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. Liquidity also refers to the ability to convert an investment to cash without loss of principal and minimal loss of interest.

5.3 Yield (Return on Investment)

The City's investment portfolio shall have the objective of attaining a comparative performance measurement or an acceptable rate of return throughout budgetary and economic cycles. These measurements should be commensurate with the City's investment risk constraints identified in the Investment Policy and the cash flow characteristics of the portfolio. Return on investment becomes a consideration only after the basic requirements of safety and liquidity have been met.

The City Treasurer shall strive to maintain the level of investment of all idle funds as close to 100% as possible. While the objectives of safety and liquidity must first be met, it is recognized that investment assets represent a potential source of significant revenues. It is to the benefit of the City that these assets be managed to produce optimum revenues consistent with State statutes and local policies.

6.0 Delegation of Authority

Authority to manage the City's investment program is derived from the California Government Code Sections 53600 through 53609. The management of idle cash and the investment of funds identified in paragraph 3(A) is the responsibility of the Finance Department. The Finance Department is under the control of the Finance Director and appointed by the City Manager as the City Treasurer. Management responsibility for the investment program is hereby delegated to the Finance Director (City Treasurer) as directed by the City Council, for a one-year period by the City Council. Subject to review, the City Council may renew the delegation of authority under this code section each year. Under the authority granted by the City Council, no person may engage in an investment transaction covered by the terms of this policy unless directed by the City Treasurer.

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In the execution of this delegated authority, the City Treasurer may establish accounts with qualified financial institutions and brokers/dealers for the purpose of effecting investment transactions in accordance with this policy. The criteria used to select qualified financial institutions and brokers/dealers are identified in Part 11 of this policy.

Transactions, including wiring instructions, must be identified in advance and approved in writing by the City Treasurer or designee. All investment transactions in excess of \$100,000 (except for deposits or withdrawals from the LAIF) shall also require the signature of the City Manager or his/her designee.

This delegation of authority shall be in effect for one fiscal year. The City Council may renew the authority annually and may revoke the authority at any time.

7.0 Ethics and Conflicts of Interest

All participants in the City's investment process shall act responsibly as custodians of the public trust. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment recommendations and decisions. Investment officials and employees shall make all disclosures appropriate under the Fair Political Practices Act and shall seek and follow the advice of the City Attorney and the Fair Political Practices Commission whenever there is a question of personal, financial or investment positions that could represent potential conflicts of interest.

8.0 Authorized Financial Institutions and Broker/Dealers

Investments shall be purchased only through well-established, financially sound institutions. All financial institutions and broker/dealers who desire to become qualified vendors for investment transactions will be given a copy of the City's investment policy and certification form. The completion and submission of the certification form by a broker-dealer or financial institution shall constitute proof that it has received the City's Statement of Investment Policy, read it, and intends to comply with it. Qualified financial institutions must provide current audited financial statements and provide either verification of a federal or a state charter or of being an eligible institution per the California Government Code. Broker/dealers must provide current audited financial statements and verification that the firm is in good standing with one of national securities exchange that is registered with the Securities Exchange Commission.

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8.1 Authorized Financial Institutions

The City Treasurer shall maintain an Approved List of all commercial banks and all savings and loan associations which may serve as public depositories of City monies. That list will be reviewed by the Finance and Audit Standing Committee within three months of modifying the list.

The City shall only deposit public monies in financial institutions that have: (1) at least \$500 million in total assets; (2) a core capital-to-total assets ratio of at least five percent; (3) favorable ratings from a recognized financial institution rating service, as determined by the City Treasurer; (4) a federal or a state charter; or are eligible institutions per the California Government Code and (5) a branch office within Santa Barbara County.

Under no circumstances shall the City's deposits in a financial institution exceed the total shareholders' equity of that institution.

8.3 Authorized Broker/Dealers

The City will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of California. These may include primary dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform new capital rule).

All financial institutions and broker-dealers for investment transactions must supply the following to the City as appropriate:

- Current audited financial statements
- Proof of Financial Industry Regulatory Authority (FINRA) certification,
- Proof of State of California registration
- Trading resolution
- Completed City of Goleta broker-dealer questionnaire, which contains a certification of having read, understood and agreeing to comply with the City's Investment Policy and depository contracts

9.0 Authorized and Suitable Investments

The City Treasurer may invest City funds in the following instruments as specified in California Government Code, Sections 53600 et seq., and as further limited in this policy. The City is empowered by statute to invest in the following types of securities:

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9.1 Authorized Investment Types

- 9.1.1 Local Agency Investment Fund (LAIF) of the State of California. Investments in accordance with the laws and regulations governing those funds.
- 9.1.2 Obligations of the U.S. Government, its agencies and instrumentalities, including U.S. Treasury notes, bonds, bills, or certificate indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest, federal agencies, mortgage-backed securities with a fixed coupon issued by an agency of the U.S. Government or U.S., government-sponsored enterprise obligations (GSE), participations, or other instruments.
- 9.1.3 Certificates of Deposit (CDs). CDs shall not exceed five-year maturity. CDs shall be collateralized as specified in Section 12 of this investment policy. CDs shall be issued by nationally or state-chartered banks or savings association or federal association or a state or federal credit union or by a state-licensed branch of a foreign bank and cannot exceed thirty percent (30%) of the total portfolio. The City may waive collateral requirements for the portion of any deposit insured up to the amount allowed per account by the FDIC or NCUA.
- 9.1.4 Prime Commercial Paper of the highest numerical rating of Moody's Investment Service, Inc. or Standard & Poor's Corporation (S&P) from issuing corporations that are organized and operating within the United States and having total assets in excess of \$500 million and having the equivalent to an "AA-" or higher rating from either Moody's or S&P for other debt of the issuer. Commercial Paper shall not exceed 270 days maturity or 25% of the portfolio.
- 9.1.5 Money market funds with portfolios consisting of one or more of the indicated legal investments and none of the prohibited investments.
- 9.1.6 Sweep account for the investment of overnight funds when the funds are swept into investments authorized by this policy.
- 9.1.7 Passbook accounts maintained solely to provide for ongoing operational needs shall be subject to the requirements of this policy.

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- 9.1.8 Investment Trust of California, a Joint Powers Authority, doing business as CalTRUST. The City may invest in CalTRUST, a pool created by local public agencies to provide a method for local public agencies to pool their assets for investment purposes.
- 9.1.9 Bonds, notes, or other forms of indebtedness issued by the City, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by the City or by a department, board, agency, or authority of the local agency.
- 9.1.10 Medium-Term Notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of 5 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. Purchases of medium-term notes may not exceed 30 percent of the City's surplus funds. Notes eligible for investment shall be rated in a rating category of "A" or its equivalent or better by two Nationally Recognized Statistical- Rating Organizations. Investments in medium-term notes for any single nongovernment issuer shall be limited to no more than 5 percent of surplus funds for issuers rated "AA" or its equivalent or better by two Nationally Recognized Statistical-Rating Organizations, and to no more than 3 percent for issuers rated in a rating category of "A" or its equivalent or better by two Nationally Recognized Statistical-Rating Organizations.
- 9.1.11 County Pooled Investment Funds in accordance with the laws and regulations governing those funds and state law.

9.2 Unauthorized Investments

Investments not specifically authorized herein are disallowed. Additionally, Section 53601.6 of the California Government Code disallows the following: inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages. Futures, options, all leveraged purchases, reverse repurchases, and speculations on interest rates are specifically not allowed by this policy.

10.0 Review of Investment Portfolio

The securities held by the city must follow Section 9.0 Authorized and Suitable Investments at the time of purchase. Because some securities may not comply with Section 8.0 Authorized and Suitable Investments subsequent to the date of

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purchase, the City Treasurer or designee, shall at least quarterly review the portfolio to identify those securities that do not comply. The City Treasurer shall establish procedures to report to the City Council and Finance and Audit Standing Committee, major and critical incidences of noncompliance identified through the review of the portfolio.

11.0 Investment Pools / Mutual Funds

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed which will answer the following general questions:

- A description of eligible investment securities, and a written statement of investment policy and objectives.
- A description of interest calculations and how it is distributed, and how gains and losses are treated.
- A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced, and the program audited.
- A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
- A schedule for receiving statements and portfolio listings.
- A description of how the pool/fund maintain reserves, retained earnings etc., or is all income after expenses distributed to participants.
- A fee schedule, and when and how it is assessed.
- The eligibility of the pool/fund to invest in bond proceeds and a description of its practices.

12.0 Collateralization

Investments in certificates of deposit, sweep accounts and passport accounts shall be fully insured up to the limit set by the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Administration (NCUA). Investments in certificates of deposit, sweep accounts and passport accounts in excess of the FDIC or NCUA limit shall be properly collateralized as required by law.

13.0 Safekeeping and Custody

All security transactions entered by the City shall be conducted on a delivery-vs.-payment (DVP) basis. Securities owned by the City, (except the collateral for certificates of deposit in banks and/or savings and loans) shall be held by a third-party custodian/safekeeping account designated by the City Treasurer and evidenced by safekeeping receipts. Said securities shall be held in a manner that establishes the City's right of ownership. The only exception to the foregoing shall be depository accounts and security purchases made with: LAIF, time

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certificates of deposit and money market mutual funds held directly with issuing institution, since the purchased securities are not deliverable.

The third-party custodian/safekeeping account shall annually provide a copy of their most recent report of internal controls and provide periodic statements of the securities owned by the City listing the specific instrument, rate, maturity and other pertinent information.

14.0 Diversification

The City recognizes that investment risks can result from the issuer defaults, market price changes, or various technical complications leading to temporary liquidity. To minimize the City's exposure to these types of risk, the portfolio should be diversified among several types of institutions, instruments, and maturities. The City Treasurer shall minimize default risk by prudently selecting only instruments and institutions, which at the time of placement have been evaluated for their financial viability and compliance with this policy. No individual transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio.

The portfolio instrument composition shall be diversified to the extent feasible to avoid incurring unreasonable and avoidable risks regarding specific security types indicated in Section 5 of this investment policy. No more than ten percent (10%) of the value of the City's portfolio will be placed with any single issuer, except for the U.S. Treasury/Federal agency securities, authorized pools, and collateralized investments.

15.0 Maximum Maturities

A policy of laddered portfolio shall be followed for pooled investments. At least thirty-five percent (35%) of the portfolio value shall be invested in instruments maturing within one year from the investment date. No more than twenty-five percent (25%) of the entire portfolio value shall have a maturity date between three (3) and five (5) years from the investment date, unless the City Treasurer can demonstrate via a comprehensive cash-flow analysis that higher percentages allows the City to meet its cash-flow requirements. Investments having a maturity greater than five (5) years shall not be made unless matched to a specific cash flow and approved by City Council.

16.0 Internal Control

The City Treasurer shall establish and maintain a system of appropriate internal controls to ensure compliance with policies and procedures. The controls should

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be designed to prevent losses of public funds arising from fraud, error, or imprudent actions by employees and officers of the City. The following procedures shall generally be followed:

- Proper documentation obtained from confirmation and cash disbursement wire transfers is required for each investment transaction.
- Timely bank reconciliation is conducted to ensure proper handling of all transactions
- The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by the Finance Department on a monthly and quarterly basis.

17.0 Performance Standards

17.1 Investment Strategy

The City's overall investment strategy is passive. The City intends to hold its investments to maturity. The A buy and hold strategy shall generally be followed. A buy and hold strategy require that the portfolio be kept sufficiently liquid to preclude the undesirable sale of investments prior to maturity. Occasionally, the City Treasurer may find it advantageous to sell an investment prior to maturity, such as when the return for an alternative investment would significantly exceed the loss on the current investment. The sale of investments prior to maturity should be only on an exception basis and only when it is clearly favorable to do so. To further provide for liquidity, investments will be made only in readily marketable securities actively traded in the secondary market.

17.2 Benchmark

The City shall use the LAIF apportionment rate, the 1-year U.S. Treasury Note and the 2-year U.S. Treasury Note as useful benchmarks to measure whether or not the City's portfolio net yields are matching or surpassing the market yields. The benchmarks and investment performance will be reviewed by the Finance and Audit Standing Committee as market conditions warrant or when the benchmarks are not met for a consecutive one-year period.

18.0 Investment Reporting

In accordance with California Government Code Section 53607, the investment report shall be submitted to the City Council on a monthly basis by the City Treasurer. The City Treasurer shall review and render monthly and quarterly investment reports and include the following:

- The monthly report shall include an accounting of all receipts, disbursements and fund balances.

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- The quarterly report shall include an itemized listing of portfolio investments by type, date of maturity, yield to maturity, issuer, par value, dollar amount invested, book value and current market value if applicable. The source of the market values will be cited.
- The quarterly report will include a statement of compliance of the portfolio with the City's investment policy or an explanation as to why the portfolio is not in compliance per California Government Code Section 53646(b)(2).
- The quarterly report shall include a statement of compliance that the investment portfolio has the ability to meet the City's expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available, per California Government Code Section 53646 (b)(3).

19.0 Investment Policy Adoption

The City's investment policy shall be adopted by resolution annually by the City Council. The policy shall be reviewed annually by the City Council and any modifications to the investment policy must be approved by the City Council.

20.0 Exceptions

Occasionally, exceptions to some of the requirements specified in this investment policy may occur for pooled investments because of events subsequent to the purchase of investment instruments. State law is silent as to how exceptions should be corrected. Exceptions may be temporary or more lasting; they may be self-correcting or require specific action. If specific action is required, the City Treasurer should determine the course of action that would correct exceptions to move the portfolio into compliance with State law and City policy. Disclosure of exceptions lasting more than 183 days shall be done in the quarterly investment report immediately following the 183 days. Decisions to correct exceptions should not expose the assets of the portfolio to undue risk and should not impair the meeting of financial obligations as they fall due. Any subsequent investments should not extend existing exceptions.

21.0 Glossary

Agencies: Federal agency securities and/or Government-sponsored enterprises.

Benchmark: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Bond Indenture (or Trust Indenture): Written agreement specifying the terms and conditions for issuing bonds, stating the form of the bond being offered for sale, interest to be paid, the maturity date, call provisions and protective covenants, if any, collateral pledged, the repayment schedule, and other terms. It describes the legal obligations of a bond issuer and the powers of the bond trustee, who has the responsibility for ensuring that interest payments are made to registered bondholders.

Buy and Hold Strategy: Investments in which management has the positive intent and ability to hold each issue until maturity.

Certificates of Deposit: Large denomination (\$100,000 or more) interest bearing time deposits, paying the holder a fixed amount of interest at maturity. Funds cannot be withdrawn before maturity without giving advance notice and without a penalty.

City Treasurer: The Finance Director serves as the City Treasurer, as appointed by the City Manager.

Collateralization: To secure a debt in part or in full by pledge of collateral, asset pledged as security to ensure payment or performance of an obligation. Also refers to securities pledged by a bank to secure deposits of public monies.

Current Yield: The interest paid on an investment expressed as a percentage of the current price of the security.

Delivery versus Payment: Securities industry term indicating payment is due when the buyer has securities in hand or a book entry receipt.

Disallowed Investments: Prohibited investments include any investments not specifically authorized within this policy, inverse floaters, range notes, interest-only strips that are derived from a pool of mortgages; futures, option, all leveraged purchases, reverse repurchases, and speculations on interest rates.

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Diversification: Dividing investment funds among a variety of securities offering independent returns.

Duration: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates means falling bond prices, while declining interest rates mean rising bond prices.

Federal Deposit Insurance Corporation (FDIC): The federal agency that insures bank deposits up to \$250,000 per deposit at participating banking institutions. To increase consumer confidence in the banking system, the previous \$100,000 insurance limit was temporarily increased to \$250,000 in 2008, extended to 2013, and then permanently increased on July 21, 2010 with the passage of the Wall Street Reform and Consumer Protection Act.

Federal Reserve System: The central bank of the United States which consists of a seven-member Board of Governors, 12 regional banks, and 5,700 commercial banks that are members.

Fiduciary Funds: Funds held in a trustee or agency capacity for outside parties.

Interest Rate: The annual yield earned on an investment, expressed as a percentage.

Liquidity: Refers to the ability to rapidly convert an investment into cash.

Laddered Portfolio: Bond investment portfolio with securities in each maturity range (e.g. monthly) over a specified period (e.g. five years).

Leverage: Investing with borrowed money with the exception that the interest earned on the investment will exceed the interest paid on the borrowed money.

Local Agency Investment Fund (LAIF): A voluntary investment program offering participating agencies the opportunity to participate in a major portfolio which daily invests hundreds of millions of dollars, using the investment expertise of the State Treasurer's Office investment staff at no additional cost to the taxpayer. Investment in LAIF, considered a short-term investment, is readily available for cash withdrawal daily.

Market Risk: Defined as market value fluctuations due to overall changes in the general level of interest rates. Adverse fluctuation possibilities shall be mitigated by limiting the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis, and eliminating the need to sell securities prior to maturity. Also, avoiding the purchase of long-term securities for the sole purpose of short-term speculation mitigates market risk.

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Market Value: The price at which a security is trading and could presumably be purchased or sold.

Maturity: The date the principal or stated value of an investment becomes due and payable.

National Credit Union Administration (NCUA): An independent federal agency that insures deposits at federally insured credit unions, currently up to \$250,000.

Nominee: Registered owner of a stock or bond if difference from the beneficial owner, who acts as holder of record for securities and other assets. Typically, this arrangement is done to facilitate the transfer of securities when it is inconvenient to obtain the signature of the real owner, or the actual owner may not wish to be identified. Nominee ownership simplifies the registration and transfer of securities.

Pooled Investments: Grouping of resources for the advantage of the participants.

Portfolio: Collection of securities held by an investor.

Primary Dealer: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers, banks and a few unregulated firms.

Prime Commercial Paper: Short-term IOU, or unsecured money market obligation, issued by prime rated commercial firms and financial companies, with maturities from 2 days up to 270 days. A promissory note of the issuer used to finance current obligations and is a negotiable instrument.

Principal: (1) The face amount of par value of a debt instrument. (2) One who acts as a dealer buying or selling for his own account.

Safekeeping: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vault for protection.

Secondary Market: A market is made for the purchase and sale of outstanding issues following the initial distribution.

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Sweep Account: Short-term income fund into which all un-invested cash balances from the non-interest-bearing checking account are automatically transferred daily.

Third-Party Custodian: Corporate agent, usually a commercial bank, who, acting as trustee, holds securities under a written agreement for a corporate client and buys and sells securities when instructed. Custody service includes securities safekeeping, and collection of dividends and interest. The bank acts only as a transfer agent and makes no buy-sell recommendations.

Treasury Bills: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

Treasury Bonds: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

Treasury Notes: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of from two to 10 years.

Trustee: (1) All governing bodies of local agencies or persons authorized (city investment officials) 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. (2) A financial institution with trust powers that acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

U.S. Government Securities: Securities issued by the U.S. Government and its agencies which are either directly or indirectly backed by the full faith and credit of the United States. U.S. Government securities include Treasury Bills, Notes and Bonds. Agency securities include those issued by the Federal National Mortgage Association, Federal Home Loan Bank, and similar agencies.

Yield to Maturity: The rate of annual income return on an investment expressed as a percentage, adjusted for any discounts, and spread over the period from the date of purchase to the date of maturity.