



City of Clayton

Investment Policy

May 2, 2023

INVESTMENT POLICY

CITY OF CLAYTON, CALIFORNIA

I. POLICY

It is the policy of the City of Clayton [and the Redevelopment Agency of the City of Clayton] {together, referred to as the “City”} to meet the short and long-term cash flow demands of the City in a manner which will provide for the safety of principal monies with sufficient liquidity, while providing a reasonable investment return. The purpose of this Investment Policy is to identify and outline various methods and procedures for the prudent and systematic investment of public funds.

II. SCOPE

This Investment Policy applies to all investment activities and financial assets of the City {hereinafter, the “Funds”}. The following Funds are covered by this Investment Policy and are accounted for in the City’s Comprehensive Annual Financial Report:

- (A) General Fund
- (B) Special Revenue Fund
- (C) Debt Service Fund
- (D) Capital Project Funds
- (E) Enterprise Funds
- (F) Internal Services Funds
- (G) Trust and Agency Funds
- (H) Any new funds created by the City Council.

Bond proceeds shall be invested in accordance with the requirements and restrictions outlined in the bond documents. Bond proceeds are not considered part of the Funds nor subject to this Investment Policy.

III. DELEGATION OF AUTHORITY

Pursuant to Section 53601 of the California Government Code, the City Council as the legislative body of the City has primary responsibility for the investment of in the City treasury. As authorized under Section 53607 of the California Government Code, the City Council hereby delegates its authority to invest or reinvest the funds of the City, and to sell or exchange securities so purchased, to the City Treasurer. The City Treasurer simultaneously delegates the responsibility of day to day activities in conducting investment transactions and managing the operations of the investment portfolio to the Finance Director.

The City Council has established this Investment Policy within which the Finance Director shall execute day-to-day investment activities.

IV. ASSIGNMENTS AND DUTIES

- A. City Council.** The City Council establishes and approves the Investment Policy of the City.
- B. City Manager.** The City Manager is the Chief Fiscal Officer and is responsible for general management of all investments of Funds.
- C. City Treasurer.** The City Treasurer is appointed by the City Council and serves at the will and pleasure of the Council. The City Treasurer shall provide guidance on the proper and prudent investment of Funds, periodically review investments and returns, and make recommendations regarding the investments of Funds and investment policies.
- D. Finance Director.** The Finance Director is responsible for investment and management of City funds within the scope of this policy.

Together, the City Treasurer, City Manager and the Finance Director function and operate as a check-and-balance system for the prudent and proper investment of all Funds.

V. PRUDENCE

Investments shall be made pursuant to the “Prudent Investor” standard, mandated by California Government Code Section 53600.3, which states:

“When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the City. Within the limitations of this section and considering individual investments as part of an overall strategy, a trustee is authorized to acquire investments as authorized by law.”

The “Prudent Investor” standard shall be applied in the context of managing the Funds. The City Treasurer and each investment employee, acting within the intent and scope of this Investment Policy and other written procedures 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 manner and appropriate action is taken to control adverse developments.

VI. INVESTMENT OBJECTIVES

The objective of the investment portfolio is to meet the short and long-term cash flow demands of the City. To achieve this objective, the portfolio will be structured to provide

Safety of Principal, Liquidity and Return on Investments.

A. Safety of Principal.

Safety of principal is the primary objective of the City. Investments of the Funds shall be undertaken in a manner that seeks to ensure the preservation of capital and losses are minimized, whether from institution default, broker-dealer default, or erosion of the market value of securities. The City shall seek to preserve principal by mitigating two types of risk, in order of importance:

1. Credit Risk. Credit risk, defined as the risk of loss due to failure of an issuer of a security, shall be mitigated by purchasing Treasuries or high-grade securities. All investments beyond Treasury securities will be diversified so that the failure of any one issuer would not unduly harm the City's cash flow.
2. Market or Interest Rate Risk. Interest rate risk is the risk the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated by structuring Funds so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and by investing operating funds primarily in shorter-term securities. The cash flow is updated on a daily basis and will be considered prior to investment of securities in order to limit the need to sell investments for liquidity purposes.

Long-term securities shall not be purchased for the sole purpose of short-term speculation. Securities shall not be sold prior to maturity with the following exceptions: 1). A declining credit security would be sold early to minimize loss of principal; 2). A security swap would improve the quality, yield, or target duration in the portfolio; or 3). Liquidity needs of the portfolio require the security be sold.

The weighted average maturity of the Funds is limited to two and a half (2.5) years or less. Purchases of investments will be restricted to securities with a final stated maturity not to exceed four (4) years. The weighted average maturities shall be based on the market conditions or requirements of the cash being invested.

B. Liquidity.

Funds shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the Funds will maintain a liquidity buffer and invest primarily in securities with active secondary or resale markets.

C. Return on Investments.

Return on investment should be considered and maximized after the prior objectives of safety and liquidity have been met. The Funds shall be designed to attain a return on investments through budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. The core of

investments is limited to relatively low risk securities in anticipation of earning a reasonable return relative to the risk being assumed.

VII. AUTHORIZED INVESTMENTS

The investments set forth in this section are authorized investments pursuant to Section 53601 of the California Government Code and are herewith authorized investments for City Funds:

- A. LOCAL AGENCY INVESTMENT FUND:** The State of California Investment Pool, known as the Local Agency Investment Fund (LAIF). As authorized in Government Code Section 16429.1, local agencies may invest in the Local Agency Investment Fund (LAIF), a pooled investment money market fund established by the State of California, and overseen by the State Treasurer, which allows local agencies to pool their investment resources. Principal may be withdrawn on a one-day notice. Interest earned is paid quarterly. The fees charged are limited to one-quarter of one percent of the earnings of the fund. Current policies of LAIF set minimum and maximum amounts of monies that may be invested as well as maximum numbers of transactions that are allowed per month. The City may invest up to the maximum amount permitted by LAIF. The LAIF is in trust in the custody of the State Treasurer. The City's right to withdraw its deposited monies from LAIF is not contingent upon the State's ability to adopt a State Budget by July 1st of each new fiscal year.
- B. NEGOTIABLE CERTIFICATE OF DEPOSIT (NCD).** Allowable certificates of deposits must be issued by a nationally or state-chartered bank or a state or federal association, a state or federal credit union, or by a federally licensed or state licensed branch of a foreign bank. The amount of the NCD insured up to the FDIC limit does not require any credit ratings. Any amount above the FDIC insured limit must be issued by institutions which have short-term debt obligations rated "A-1" or its equivalent or better by at least one NRSRO; or long-term obligations rated in a rating category of "A" or its equivalent or better by at least one NRSRO. No more than 30% of the total portfolio may be invested in these securities. No more than 5% of the portfolio may be invested in any single issuer.
- C. MUNICIPAL BONDS OF THE STATE OF CALIFORNIA OR LOCAL AGENCIES:** As authorized in Government Code Section 53601(e), local agencies may invest in Bonds of the State of California and any local government in the State of California, which are rated in the "A" category or better by one NRSRO at the time of investment. In no event shall this classification of investment exceed 30% of the value of the portfolio. No more than 5% of the portfolio may be invested in any single issuer.
- D. U.S. TREASURY NOTES, U.S. TREASURY BILLS, U.S. GOVERNMENT AGENCY ISSUES AND GOVERNMENT SPONSORED ENTERPRISES:** United States Treasury notes, bonds bills or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest. There are no limits on the dollar amount or percentage that the City may invest in U.S. Treasury Bills.
- E. U.S. GOVERNMENT AGENCY ISSUES AND GOVERNMENT SPONSORED ENTERPRISES:** Federal Agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully

guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. There are no limits on the dollar amount or percentage that the City may invest in government-sponsored enterprises.

F. GOVERNMENT INVESTMENT POOLS: Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (q), inclusive, and including but not limited to California Asset Management Program (CAMP). Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issued the shares shall have retained an investment adviser that meets all of the following criteria:

- The adviser is registered or exempt from registration with the Securities and Exchange Commission.
- The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.
- The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

For all other recommended investment of Funds by the City Finance Director and the City Manager, the City Council shall adopt the individual authorized instrument by resolution at a regular public meeting thereof.

VIII. PROHIBITED INVESTMENTS AND TRANSACTIONS

- A. Investments not described specifically in VII Authorized Investments are prohibited.
- B. The City shall not invest any Funds in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages or reverse purchase agreements.
- C. The City shall not purchase or sell securities on margin.
- D. The City shall not invest any Funds in any security that could result in zero interest accrual if held to maturity date.

IX. ALLOCATION OF INTEREST EARNINGS

When a single investment is made from a single Fund, interest on that investment is to be credited to that source Fund. When an investment represents multiple Funds, the interest shall be distributed based on the proportionate share of each Fund included in the aggregate investment.

When investments result in interest paid for a period greater than one (1) month, the

interest shall be distributed proportionately based on the average of the monthly beginning balances of each involved Fund.

X. DIVERSIFICATION

The investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. In a diversified portfolio it is recognized that occasional measured losses are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

XI. PUBLIC TRUST

All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize the investment portfolio is subject to public review, scrutiny and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the highest ideals of the public trust.

XII. ETHICS AND CONFLICTS OF INTEREST

The City Treasurer and other employees or elected officials 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 decisions. The City Treasurer and investment employees and elected officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio and shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their entity.

During the course of the year, if there is an event subject to disclosure that could impair the ability of the City Treasurer or investment employees to make impartial decisions, the City Council shall be notified in writing within ten (10) days of the event.

XIII. REPORTING REQUIREMENTS

The Finance Director shall submit a quarterly investment report to the City Council. This report will include the following elements:

- A. Type of each investment
- B. Financial institution
- C. Date of Maturity
- D. Amount of deposit or cost of security
- E. Current market value of securities
- F. Rate of Interest
- G. Weighted average maturity of the investments

- H. Discussion of the current economic climate
- I. Statement that the portfolio is in compliance with this Investment Policy or the manner in which the portfolio is not in compliance
- J. Statement of the City's ability to meet anticipated expenditure requirements for the next six months, or an explanation as to why sufficient money may not be available
- K. Quarterly review of the investment portfolio with the Finance Director, City Manager and City Treasurer
- L. Quarterly meeting with the Budget and Audit Committee with the City staff and the City's broker/dealer.

XIV. INTERNAL CONTROLS

The City Manager shall ensure the development of a system of internal investment controls and a segregation of duties and responsibilities of investment functions in order to assure an adequate system of internal control over the investment function. This segregation of duties will take into account the authorized staffing levels of the City. Internal control procedures shall address wire controls, separation of duties, delivery of securities to a third party for custodial safekeeping, and written procedures for placing investment transactions.

XV. GENERAL FUND RESERVE CONTINGENCY

The City Manager shall set aside Funds designated as *General Fund Reserve Contingency (GFRC)* to protect the City from unexpected financial expenses and to absorb the impact of deficiencies in cash flow not anticipated at the time the fiscal year budget was adopted.

The General Fund Reserves of the City shall include \$250,000.00 (two hundred fifty thousand dollars) designated as *GFRC – Emergency Component*. Further, the City will make every effort to maintain a *GFRC*, cash flow component, in an amount not less than fifty percent (50%) of the adopted annual General Fund budget. The amounts of the *GFRCs* will be reviewed annually prior to adoption of the General Fund budget. City Council approval shall be required for any expenditure that would decrease the amount of the *GFRC* below the level established at the time of budget adoption.

XVI. POLICY REVIEW

The Investment Policy shall be reviewed at least annually by the City Manager, City Treasurer, Finance Director, and the City Council to ensure its consistency with the overall objectives of preservation of principal, liquidity, and return on investments, along with its relevance to current law, financial and economic trends, and the needs of the City.

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Established:	30 July 2002
City Council adopted revisions:	21 April 2015 03 August 2010 05 May 2005 06 August 2002

21 April 2015
20 November 2018
2 May 2023