



# CITY COUNCIL STAFF REPORT



February 13, 2024

## ITEM TITLE

Policy and Investment Report: Amend City Council Policy No. 220-01, Delegate Investment Activity Authority to the Director of Finance/Treasurer, and Accept the Investment Report for Quarter Ending December 31, 2023

**Report Number:** 24-0051

**Location:** No specific geographic location

**Department:** Finance

**G.C. § 84308:** No

**Environmental Notice:** The activity is not a “Project” as defined under Section 15378 of the California Environmental Quality Act State Guidelines. Therefore, pursuant to State Guidelines Section 15060(c)(3) no environmental review is required.

## Recommended Action

Adopt a resolution acknowledging receipt of City Council Policy No. 220-01 Investment Policy and Guidelines, amending the existing policy, delegating investment activity authority to the Director of Finance/Treasurer, and accepting the investment report for the quarter ending on December 31, 2023.

## SUMMARY

Per California Government Code Section 53607, on an annual basis the City Council may delegate to the City Treasurer the authority to conduct the investment activities of the City. And, per Government Code Section 53646, the City Treasurer may annually present the City’s Investment Policy to the City Council to reaffirm or make any changes to the existing policy. The City Council Policy No. 220-01 Investment Policy and Guidelines (Policy) provides guidelines for the investment of idle funds and affords the City various investment opportunities, as long as the investment is deemed prudent and is allowable under Government Code Section 53600, et seq. The Policy was reviewed and adopted by City Council on March 7, 2023. At this time, staff is recommending changes to the Policy required to align with the California Government Code.

Transmitted herewith is the City’s investment report for the quarter ending December 31, 2023, to meet the reporting requirements set forth in the California Government Code Sections 53600 *et seq.* and the City’s Investment Policy and Guidelines.

## ENVIRONMENTAL REVIEW

The Director of Development Services has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the activity is not a “Project” as defined under Section 15378 of the State CEQA Guidelines because the proposed activity consists of a governmental fiscal/administrative activity which does not result in a physical change in the environment; therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines, the activity is not subject to CEQA. Thus, no environmental review is required.

## BOARD/COMMISSION/COMMITTEE RECOMMENDATION

Not applicable.

## DISCUSSION

### Investment Policy:

The City’s Investment Policy and Guidelines (Policy) was last amended on March 7, 2023 by Resolution 2023-024 and was intended to provide direction for the prudent investment of temporarily idle cash, and for maximizing the efficiency of the cash management process. The stated goal is to enhance the economic condition of the City while ensuring the safety of funds invested. The Policy includes a list of specific investment instruments available under the relevant California Government Code Section 53600 *et seq.* Each investment transaction is made in the context of first ensuring the “safety” of principal, second, investing only for that timeframe that the cash is not needed for operational purposes (“liquidity”), and last, seeking the highest return possible (“yield”) provided that the first two factors are met.

Per Section 18.0 of the Policy, each fiscal year the Finance Director/Treasurer shall provide a copy of the Policy for adoption by the City Council. At this time, staff is recommending changes to Section 9.0 Authorized and Suitable Investments and Section 17.0 Reporting required to align with the California Government Code that include: (a) increases to the maximum percentage of the portfolio that may be invested in commercial paper; (b) revisions to eligible investments under asset backed securities; and (c) that quarterly investment reports will be submitted to the City Council and City Manager within 45 days following the end of each quarter. Other recommended changes include updates to the Glossary section to improve the overall clarity of the Policy and terminology changes as prescribed by the Governmental Accounting Standards Board (GASB).

### Quarterly Investment Report

As shown in the following table, the total cash and investment portfolio held by the City as of December 31, 2023, was \$624,550,463 and total cash and investments held by the trustees was \$144,333,457.

<b>Summary of Cash and Investments as of December 31, 2023</b>	
<b>Investments</b>	<b>Book Value</b>
Managed Investment Portfolio	\$ 573,173,779
State of California Local Agency Investment Fund	15,001,163
County of San Diego Pooled Investment Fund	139,860
<b>Total Investments Held by the City</b>	<b>588,314,802</b>
Cash/Time Deposits	36,235,661
<b>Total Cash and Investments Held by the City</b>	<b>624,550,463</b>
Cash and Investments Held by Bank Trustee	144,333,457
<b>Total Investment Portfolio</b>	<b>\$ 768,883,920</b>

Cash and investments held by the City and the trustees continue to be invested in accordance with the Government Code and the City’s Investment Policy as adopted by Resolution 2023-024 on March 7, 2023.

During this quarter, thirty-four investments matured, totaling \$98,153,000. Eighteen purchases were made to replace those investments. Purchased investments include: thirteen treasury notes (\$78,400,000), one federal agency bond (\$6,400,000), two supranational (\$11,000,000), and two commercial paper (\$16,000,000). The Finance Department continues to manage the portfolio and execute transactions as financial and economic conditions warrant. There is no further activity to report other than routine investments.

Two-year Treasuries were yielding 5.03% at the beginning of the quarter and ended the quarter at a yield of 4.23%. As of December 31, 2023, the Weighted Yield to Maturity on the Managed Investment Portfolio was 3.06%, which was an increase of 33 basis points from the previous quarter. The average yield of the two-year U.S. treasury note over the last twelve months is 4.60%. Purchases are made at current market yields with fixed interest rates.

At the end of this quarter, the Weighted Average Maturity of the Managed Investment Portfolio was 1.66 years, which is an increase from 1.46 years the prior quarter.

The Federal Open Market Committee (FOMC) meets approximately every six weeks and determines the level of the Federal Funds Rate. During this quarter, the FOMC met on October 31 and December 12. At both October 31 and December 12 meeting, the FOMC voted to maintain the Federal Funds Rate target range. The Federal Funds Rate target range is 5.25%-5.50%.

The following excerpts are from the statement issued by the FOMC following their December 12 meeting. *“Recent indicators suggest that growth of economic activity has slowed from its strong pace in the third quarter. Job gains have moderated since earlier in the year but remain strong, and the unemployment rate has remained low. Inflation has eased over the past year but remains elevated. The U.S. banking system is sound and resilient. Tighter financial and credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain. The Committee remains highly attentive to inflation risks. The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to maintain the target range for the federal*

*funds rate at 5-1/4 to 5-1/2 percent. The Committee will continue to assess additional information and its implications for monetary policy. In determining the extent of any additional policy firming that may be appropriate to return inflation to 2 percent over time... In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments."*

The Finance Department, with the assistance of Chandler Asset Management, Inc, continues to manage the City's investment portfolio in accordance with the California Government Code and the City's Investment Policy. Considering the projected timing of cash receipts and disbursements and the structure of the Pooled Investment Portfolio, the City will be able to comfortably meet overall cash flow needs over the next six months.

### **DECISION-MAKER CONFLICT**

Staff has reviewed the decision contemplated by this action and has determined that it is not site-specific and consequently, the real property holdings of the City Council members do not create a disqualifying real property-related financial conflict of interest under the Political Reform Act (Cal. Gov't Code § 87100, et seq.).

Staff is not independently aware and has not been informed by any City Council member, of any other fact that may constitute a basis for a decision-maker conflict of interest in this matter.

### **CURRENT-YEAR FISCAL IMPACT**

Considering the projected timing of cash receipts and disbursements and the structure of the Pooled Investment Portfolio, the City should be able to comfortably meet overall cash flow needs over the next six months. There is no direct fiscal impact as a result of this action.

### **ONGOING FISCAL IMPACT**

There is no ongoing fiscal impact as a result of this action.

### **ATTACHMENTS**

1. Summary of Cash and Investments as of December 31, 2023
2. Investment Report for the Quarter Ended December 31, 2023
3. Council Policy 220-01 Investment Policy and Guidelines – Redline Version

*Staff Contact: Adrian Del Rio, Assistant Director, Finance Department  
Sarah Schoen, Director of Finance/Treasurer*