



CITY COUNCIL STAFF REPORT



February 11, 2025

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, 2024

Report Number: 25-0012

Location: No specific geographic location

Department: Finance

G.C. § 84308 Regulations Apply: 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 December 31, 2024.

SUMMARY

In accordance with 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, under 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. City Council Policy No. 220-01 Investment Policy and Guidelines (the “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 last reviewed and adopted by City Council on February 13, 2024. Staff is recommending non-substantive changes to the Policy to improve overall clarity that aligns with the California Government Code.

Transmitted herewith is the City’s investment report for the quarter ending December 31, 2024, 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 Policy was last amended on February 13, 2024 via Resolution 2024-023 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. Staff recommends non-substantive changes to improve overall clarity of the Policy that aligns with the California Government Code.

Quarterly Investment Report

As shown in the table below, the total cash and investment portfolio held by the City as of December 31, 2024, was \$666,809,521 and total cash and investments held by the trustees were \$75,472,988.

Summary of Cash and Investments as of December 31, 2024	
Cash and Investments	Book Value
Managed Investment Portfolio	\$ 613,794,118
State of California Local Agency Investment Fund	30,585,734
County of San Diego Pooled Investment Fund	25,479
Total Investments Held by the City	644,405,331
Cash/Time Deposits	22,404,190
Total Cash and Investments Held by the City	666,809,521
Cash and Investments Held by Bank Trustee	75,472,988
Total Cash and Investment Portfolio	\$ 742,282,509

Cash and investments held by the City and the trustees continue to be invested in accordance with the Government Code and City Council Policy 220-01 Investment Policy and Guidelines as adopted by Resolution No. 2024-023 on February 13, 2024.

During the quarter, \$25,000,000 was transferred to the State of California Local Agency Investment Fund ("LAIF"), pooled investment account. \$10,000,000 was transferred from Bank of New York, the City's investment custodian bank account, to the City. These funds were used to maintain adequate cashflows during the quarter. Additionally, thirty investments matured, totaling \$63,111,000. Eleven purchases were made to replace those investments. Purchased investments include: one corporate note (\$7,500,000), one municipal bond (\$6,000,000) and nine U.S. treasury notes (\$52,500,000). 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 3.66% at the beginning of the quarter and ended the quarter at a yield of 4.25%. As of December 31, 2024, the Weighted Yield to Maturity on the Managed Investment Portfolio was 3.68%, which was an increase of 6 basis points from the previous quarter. The average yield of the two-year U.S. treasury note over the last twelve months is 4.38%. 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 1.94 years, which is an increase from 1.91 years from 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 November 6 and December 17. At their December 17 meeting, the FOMC voted to lower the Federal Funds Rate target range. The Federal Funds Rate target range is 4.25%-4.50%.

The following excerpts are from the statement issued by the FOMC following their December 17 meeting.

"Recent indicators suggest that economic activity has continued to expand at a solid pace. Since earlier in the year, labor market conditions have generally eased, and the unemployment rate has moved up but remains low. Inflation has made progress toward the Committee's 2 percent objective but remains somewhat elevated. The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee judges that the risks to achieving its employment and inflation goals are roughly in balance. The economic outlook is uncertain, and the Committee is attentive to the risks to both sides of its dual mandate. In support of its goals, the Committee decided to lower the target range for the federal funds rate by 1/4 percentage point to 4-1/4 to 4-1/2 percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks.....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 Government Code and City Council Policy 220-01

Investment Policy and Guidelines. 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 current-year 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, 2024
2. Investment Report for the Quarter Ended December 31, 2024
3. Council Policy 220-01 Investment Policy and Guidelines – Redline Version

*Staff Contact: Galen Fleming, Fiscal Services Analyst, Finance Department
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