

CITY OF PETALUMA, CALIFORNIA STATEMENT OF INVESTMENT POLICY

For Fiscal Year 2023-2024

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CITY OF PETALUMA, CALIFORNIA

STATEMENT OF INVESTMENT POLICY FOR FISCAL YEAR 2023-2024

POLICY

It is the policy of the City of Petaluma, CA (the “City”) to manage public funds in a manner consistent with the following objectives: comply with all laws of the State of California pertaining to the investment of public funds; safeguard the principal of funds under its control, meet the daily cash flow requirements and to achieve a reasonable rate of return with the maximum security.

SCOPE

This investment policy applies to all financial assets of the City. These funds are accounted for in the City Comprehensive Annual Financial Report and include:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Enterprise Funds
- Internal Service Funds
- Permanent and Private Purpose Trust Funds

This Policy shall also apply to funds of the Petaluma Community Development Commission (PCDC), City acting in its capacity as Successor Agency, Petaluma Public Financing Authority, City of Petaluma Public Financing Corporation and any other fund under the control of the City Treasurer.

PRUDENCE

Investments shall be made 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 City, 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.

The City Treasurer and authorized individuals acting in accordance with written procedures and the 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.

OBJECTIVE

The primary objective in priority order, of the City's investment activities shall be:

1. **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 the preservation of capital in the overall portfolio.
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.
3. **Return on Investments:** The City's investments shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

DELEGATION OF AUTHORITY

Under the City Charter Section 24, the City Treasurer is appointed by the City Manager with the approval of the City Council. The City Treasurer is also the City's Finance Director. Pursuant to the Government Code, the City Council delegates the authority to invest or to reinvest funds, or to sell or exchange securities so purchased, to the City Treasurer for a one-year period. The City Treasurer is charged with the responsibility for carrying out the policies of the City Council and shall assume full responsibility for investment transactions until the delegation of authority is revoked or expires. No person may engage in an investment transaction except as provided under the limits of this Investment Policy.

The daily cash management, investment transactions and account reconciliations are the primary responsibilities of the City Treasurer. These activities are also carried out by other members of the Finance Department under the direction of the City Treasurer. The City Treasurer shall establish procedures for the operation consistent with this investment policy.

ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program or which could impair their ability to make impartial decisions. Officers and employees involved in the investment process shall abide by the Conflict of Interest Code, (California Government Code Section 1090 et seq.) and the California Political Reform Act (California Government Code Section 81000 et seq.).

SOCIALLY RESPONSIBLE INVESTING

The City strives to make socially responsible investments and monitors issuers' business activity. Investments are encouraged in entities that support community well-being through safe and environmentally sound practices and fair labor practices. Investments are encouraged in entities that support equality of rights regardless of sex, race, age, disability or sexual orientation.

Investments are discouraged in entities that manufacture tobacco products. In addition, investments are encouraged in entities that offer banking products to serve all members of the local community, and investments are discouraged in entities that have had past criminal or regulatory violations.

PERMITTED INVESTMENTS

California Government Code Sections 53601 et. seq., and 53635 govern the investments permitted for purchase by the City. Within the investments permitted by the Code, the City seeks to further restrict eligible investments to the investments listed below.

Percentage limitations, where indicated, apply at the time of the purchase. Rating requirements where indicated apply at the time of purchase. In the event a security held by the City is subject to a rating change that brings it below the minimum specified rating requirement, the City Treasurer shall notify the City Council of the change. The course of action to be followed will then be decided on a case-by-case basis, considering such factors as the reason for the rate drop, prognosis for recovery or further rate drops, and the market price of the security. Investment maturities shall be based on review of cash flow forecasts. Maturities will be scheduled so as to permit the City to meet all projected obligations.

No investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement, that at the time of the investment has a term remaining to maturity in excess of five years (except for bond proceeds), unless the City Council has granted express authority to make that investment no less than three months prior to the investment.

ELIGIBLE INVESTMENTS

- A. **State of California Local Agency Investment Fund (LAIF).** The City may invest in LAIF up to statutory limits.
- B. **Sonoma County Investment Pool.** The City may invest in the Sonoma County Investment Pool. A maximum of \$10 million may be invested in this category.
- C. **California Asset Management Program Trust (CAMP).** The City may invest in the shares in the California Asset Management Trust, so long as the portfolio is rated among the top two rating categories by one of the nationally recognized rating agencies. A maximum of \$50 million may be invested in this category.
- D. **Certificates of Deposit.** FDIC insured or fully collateralized time certificates of deposit in financial institutions located in the United States including a Placement Service such as Certificate of Deposit Account Registry Service (CDARS). Collateralized certificates of deposit shall be handled in accordance with California Government Code section 53530 et seq. The City, at its discretion, may waive the collateralization requirements for any portion of the deposit that is covered by federal deposit insurance. As noted above the City may also invest in fully insured certificates of deposit utilizing a placement service such as CDARS, as provided under California Government Code section 53601.8. The maximum term for certificates of deposit shall be two years. Investments in certificates of deposit are further limited to 30% of surplus funds.
- E. **Banker's Acceptances.** Banker's acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System. Purchases of banker's acceptances may not exceed 180 days maturity. Eligible banker's acceptances are

restricted to issuing financial institutions with short-term paper rated in the highest category by one or more nationally recognized rating services. Investments in banker's acceptances are further limited to 40% of the portfolio with no more than 30% of surplus invested in the banker's acceptances of any one commercial bank.

- F. **U.S. Government Issues.** 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.
- G. **Federal Agency Securities.** 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.
- H. **Money Market Funds.** Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission (SEC) under the Investment Company Act of 1940 (15 U.S.C., Sec. 80a-1, et seq.).

The City may invest in shares of beneficial interest issued by a company which shall have met either of the following criteria:

- a. Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized rating services.

(or)

- b. Retained an investment adviser registered or exempt from registration with the SEC with not less than five years experience in managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).

The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include any commission that the companies may charge. Investments in Money Market Funds are further limited to 20% of the portfolio.

ELIGIBLE INVESTMENTS FOR BOND PROCEEDS

Bond Proceeds shall be invested in securities permitted by the applicable bond documents. If the bond documents are silent as to the permitted investments, bond proceeds will be invested in securities permitted by this Policy.

With respect to maximum maturities, the Policy authorizes investing bond reserve fund proceeds beyond the five years if prudent in the opinion of the City Treasurer.

INELIGIBLE INVESTMENTS

As provided in California Government Code section 53601.6 and this policy, the City shall not invest any funds in:

- Inverse Floaters

- Range Notes
- Mortgage Derived Interest-Only Strips
- Any security that could result in zero interest accrual if held to maturity.

The purchase of any security not listed above, but permitted by the California Government Code, is prohibited unless the City Council approves the investment either specifically or as a part of an investment program approved by the Board. Exclusion of these investment vehicles is consistent with the City's overall objectives of achieving reasonable returns on public funds while minimizing risk and capital losses. Although the potential exists for greater yields with these vehicles, there is the potential level of risk that can exceed their benefits.

BROKERS

To provide for the optimum yield in the City's portfolio, the City's procedures shall be designed to encourage competitive bidding on transactions from an approved list of broker/dealers.

The City Treasurer, or the City's investment advisor, shall maintain a list of authorized broker/dealers and financial institutions that are approved for investment purposes. This list will be developed after a comprehensive credit and capitalization analysis indicates the firm is adequately financed to conduct business with public entities. It shall be the policy of the City to purchase securities only from those authorized institutions or firms.

If the City has engaged the services of a registered investment advisory firm, the firm is authorized to conduct investment transactions on the City's behalf with their own list of approved broker/dealers and financial institutions. The investment advisor's approved list must be made available to the City.

SAFEKEEPING AND CUSTODY

All security transactions entered into by the City of Petaluma, CA shall be conducted on a delivery-versus-payment (DVP) basis. This procedure ensures that securities are deposited with the third-party custodian prior to the release of funds. A third party custodian designated by the City Treasurer and evidenced by safekeeping receipts will hold securities.

The only exceptions to the foregoing are Local Agency Investment Pools, Certificates of Deposit, and money market funds since the purchased securities are not deliverable. In all cases, purchased securities shall be held in the City's name.

INTERNAL CONTROL

The City Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with the Statement of Investment Policy and procedures.

PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a reasonable rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

The City will measure the portfolio's performance against a market benchmark that is commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

REPORTING

The City Treasurer shall provide a quarterly investment report to the City Council, which provides a clear picture of the status of the current investment portfolio, including transactions. This report will be formally submitted to the City Council after each quarter at a public meeting.

Schedules in the quarterly Treasurer's Report will include the following:

- Listing of individual securities held at the end of the reporting period.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
- Listing of investment by maturity date.
- Percentage of the total portfolio which each type of investment represents.

The quarterly report shall state compliance of the portfolio to the investment policy, or manner in which the portfolio is not in compliance. The quarterly report shall also include a statement certifying the ability of the City to meet its expenditure requirements for the next six months.

POLICY REVIEW

The 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 relevance to current law and financial and economic trends. The investment policy shall be adopted by resolution of the City Council on an annual basis. Any amendments to the policy shall be forwarded to the City Council for approval.

CITY OF PETALUMA
STATEMENT OF INVESTMENT POLICY FOR FISCAL YEAR 2023-2024

GLOSSARY OF TYPES OF INVESTMENTS
AVAILABLE TO LOCAL GOVERNMENTS

STATE INVESTMENT POOL (LAIF)

The Local Agency Investment Fund (LAIF), a voluntary program created by statute, began in 1977 as an investment alternative for California's local governments and special districts and continues today under the State of California Treasurer's office. The enabling legislation for the LAIF is Section 16429.1,2,3 of the California Government Code.

This program offers participating agencies the opportunity to participate in a major portfolio which daily invests hundreds of millions of dollars, using the investment expertise of the Treasurer's Office Investment staff at no additional cost to the taxpayer. This in-house management team is comprised of civil servants who have individually worked for the State Treasurer's Office for over 20 years. The LAIF is part of the Pooled Money Investment Account (PMIA). The PMIA began in 1955 and has oversight provided by the Pooled Money Investment Board (PMIB) and an in-house Investment Committee. The PMIB Board members are the State Treasurer, Director of Finance, and State Controller.

The LAIF has oversight by the Local Investment Advisory Board (LIAB). The Board consists of five members as designated by Statute. The Chairman is the State Treasurer, or his designated representative. Two members qualified by training and experience in the field of investment or finance, and the State Treasurer appoints two members who are Treasurers, finance or fiscal officers or business managers employed by any County, City or local district or Municipal Corporation of this state. The term of each appointment is two years or at the pleasure of the appointing authority.

All securities are purchased under the authority of the Government Code Section 16430 and 16480.4. The State Treasurer's Office takes delivery of all securities purchased on a delivery versus payment basis using a third party custodian. All investments are purchased at market, and market valuation is conducted monthly.

Additionally, the PMIA has Policies, Goals, and Objectives for the portfolio to make certain that our goals of Safety, Liquidity and Yield are not jeopardized and that prudent management prevails. These policies are formulated by investment staff and reviewed by both the PMIB and the LIAB on an annual basis.

The Bureau of State Audits on an annual basis audits the State Treasurer's Office. The resulting opinion is posted to the State Treasurer's Office website following its publication. The Bureau of State Audits also has a continuing audit process throughout the year. The State Controller's Office as well as an in-house audit process involving three separate divisions audit all investment and LAIF claims on a daily basis.

There is a limitation of \$75 million per legal entity within an agency. There is also a maximum of fifteen transactions, deposits or withdrawals per month.

SONOMA COUNTY INVESTMENT POOL

The Sonoma County Treasurer maintains an investment pool in which the County, Schools, Special Districts and Cities can participate. This investment pool operates in the same manner as the State pool. The County Treasurer is subject to the same State Government Code regarding investments as the City. As with the State investment fund, City funds can be withdrawn at any time and are protected by State Law from seizure or impoundment by any County Officer. The City does not participate in this pool but retains the option to do so.

CALIFORNIA ASSET MANAGEMENT PROGRAM (CAMP)

CAMP provides California public agencies, together with any bond trustee acting on behalf of such public agency, assistance with the investment of and accounting for bond proceeds and surplus funds. For bond proceeds, the objective of CAMP is to invest and account of such proceeds in compliance with arbitrage management and rebate requirements of the Internal Revenue Service. The program includes the California Asset Management Trust, a California common law trust organized in 1989. The Trust currently offers a professionally managed money market investment portfolio, the Cash Reserve Portfolio, to provide public agencies with a convenient method of pooling funds for temporary investment pending their expenditure. The Trust also provides record keeping, custodial and arbitrage rebate calculation services for bond proceeds. As part of the program, public agencies may also establish individual, professionally managed investment accounts.

The Pool seeks to attain as high a level of current income as is consistent with the preservation of principal. The Pool purchases only investments of the type in which public agencies are permitted by statute to invest surplus funds and proceeds of their own bonds.

CERTIFICATES OF DEPOSITS (CD)

Certificates of Deposits, sometimes known as "Jumbo Accounts" or "Fixed CD's" are savings accounts with Banks or Savings and Loans. These accounts are for a specific amount, have a set interest rate, and set maturity date. There is a substantial interest penalty if the CD is withdrawn prior to the maturity date.

The State law requires Public Fund CD's to be collateralized by the financial institution at 110% with US Government notes/bonds or at 150% with quality First Trust Deeds. This collateral can be waived if Federal Insurance (FDIC) is available. These federal agencies will insure each account up to \$250,000.

The City generally waives the collateralization requirements for the FDIC insurance. The waiver of collateral is a wide spread practice and will generally generate higher interest rates and provide the greatest security for the funds from the Federal Insurance Agencies. For deposits in excess of \$250,000, the collateralization requirements are not waived. A Placement Service such as Certificate of Deposit Account Registry Service (CDARS) is a combination of Certificates of Deposits managed by a single bank that can access multi-million dollars in FDIC coverage on CD investments made through a single bank relationship. The single bank relationship means avoiding tracking collateral on an ongoing basis, requiring surety bonds, or working directly with multiple banks.

BANKER'S ACCEPTANCES (BA)

A Banker's Acceptance is a time draft of invested funds, which has been drawn on and accepted for repayment by a bank. This financial instrument is generally used for short term (30 and 180 days) financing of export, import, or storage of goods. By accepting the draft (investment of City funds), the bank is liable for the payment at maturity. This bank liability makes the Banker's Acceptance a marketable investment. The State Code limits BA's to not more than 180 days to maturity and 40% of the local agency's portfolio. In addition, not more than 30% of the local agency's portfolio may be placed in any one bank.

US TREASURY BILLS

Commonly referred to as T-Bills, these are short-term marketable securities sold as obligations of the US Government. They are offered in three month, six month, nine month and one-year maturities. T-Bills do not accrue interest but are sold at a discount, and pay the face value at maturity.

US TREASURY NOTES

These are marketable, interest-bearing securities sold as obligations of the US Government with original maturities of one to ten years. Interest is paid semi-annually.

US TREASURY BONDS

These are the same as US Treasury Notes except they have original maturities of ten years or longer.

FEDERAL AGENCY ISSUES

Many Federal Government Agencies are authorized to issue short term and long term obligations that are used to finance various programs such as home loans, business loans, farm loans, etc. These Agencies were created by the Federal Government in the 1930's and have since become independent quasi-public agencies. The security for their issues is the guarantee of the Agency to pay. The Federal Government has only an implied liability to the extent that the Agency has an open credit line to borrow from the U.S. Treasury. It is widely accepted that Federal Agency issues are almost as secure as U.S. Government notes.

There is an active secondary market available to sell these issues prior to maturity. The issues are fairly liquid depending on the prevailing market interest rates at the time of sale. Some of the more common agency notes are issued by the Federal National Mortgage Association (Fannie Mae), Federal Home Loan Banks, Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Farm Credit Banks.