

DATE SUBMITTED 11/13/24  
 SUBMITTED BY Victor Manriquez  
 DATE ACTION REQUIRED 11/20/24

COUNCIL ACTION   
 PUBLIC HEARING REQUIRED   
 RESOLUTION   
 ORDINANCE 1<sup>ST</sup> READING   
 ORDINANCE 2<sup>ND</sup> READING   
 CITY CLERK'S INITIALS

**IMPERIAL CITY COUNCIL  
 AGENDA ITEM**

SUBJECT: DISCUSSION/ACTION: 1. APPROVAL THE CITY OF IMPERIAL INVESMENT POLICY UPDATE	
DEPARTMENT INVOLVED: Administrative Services	
BACKGROUND/SUMMARY: The City Investment Policy should be reviewed and updated annually to reflect changes in market conditions, interest rates, FDIC insurance levels, and any legislative changes that protect the City's cash balances while enhancing investment yields and rates of return. The City invesment guidelines will mirror those of approved by California State Treasures Office and governed by the California Debt and invesment Advisory Commision (CDIAC).  The City follows the SLY Principle: Safety first, Liquidity second, and Yield third, Staff is optimistic in safely expanding investment yields and will provide an Investment Report to the City Council, on a Quarterly Basis.	
FISCAL IMPACT: NOT TO EXCEED There no fiscal impact for this request.	FINANCE INITIALS <u>JMS</u>
STAFF RECOMMENDATION: It is staff's recommendation to approve the updated Invesment Policy.	DEPT. INITIALS <u>JMS</u>
MANAGER'S RECOMMENDATION: <u>approve</u>	CITY MANAGER'S INITIALS <u>VM</u>
MOTION:	
SECONDED: AYES: NAYES: ABSENT:	APPROVED <input type="checkbox"/> REJECTED <input type="checkbox"/> DISAPPROVED <input type="checkbox"/> DEFERRED <input type="checkbox"/>  REFERRED TO:

**CITY OF IMPERIAL  
STATEMENT OF INVESTMENT POLICY**

**1. PURPOSE**

The City of Imperial's Investment Policy provides guidelines and standards for the responsible management of the funds available for investment. It is intended to be sufficiently specific to be meaningful yet adequately flexible to be practical.

The policy is set forth for the following purposes:

(1) To establish a clear understanding of the objectives and guidelines for the investment of the City's idle and reserve funds for the City Council and City management staff;

(2) To offer guidance to investment staff and any outside advisers retained by the City on the investment of City funds; and

(3) To establish a basis for evaluating investment results.

**2. SCOPE**

This Investment Policy applies to all financial assets of the City, including the following funds:

- General Fund
- Special Revenue Funds
- Capital Improvement Program (CIP) Fund
- Debt Service Funds
- Community Facilities Districts (CFD) Funds
- Water and Wastewater Enterprise Funds
- Any new fund created by the City Council

**3. POLICY**

It is the policy of the City of Imperial ("City") to invest public funds in a manner that will provide the maximum security of principal consistent with a market rate of return while meeting the cash flow needs of the City and conforming to all applicable State and City statutes governing the investment of public funds. Every effort will be made to match investment maturities to cash flow needs.

**4. OBJECTIVES**

The City's financial management system is designed to monitor and forecast expenditures and revenues accurately, thus ensuring the investment of monies to the fullest extent

possible. The City strives to maintain the level of investment of idle funds as near to 100% as possible. Consistent with this goal, all City investments are made under the terms and conditions of Sections 53600-53683 of the California Government Code.

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

Safety

The safety of the principal is the foremost objective of the City. Investments of the city shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

Liquidity

The City's investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

Yield (Return on Investment)

The City's investment portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, considering the City's investment risk constraints and the portfolio's cash flow characteristics. *The average return on the State Treasurer's Local Agency Investment Fund (LAIF) shall be considered the City's benchmark for conservative investment transactions and constitute the performance standard for the City's portfolio yields or rates of return.*

**5. PRUDENCE**

The standard of prudence to be used in the investment function shall be the "prudent person" rule, which states: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investments, considering the probable safety of their capital and income to be derived".

**6. STRUCTURE, RESPONSIBILITIES, AND DELEGATION OF AUTHORITY**

This section defines the overall structure of the City's investment program, including the roles and responsibilities for both oversight and management of the investment of the City funds.

General Authority

The authority to manage the City's investment program is derived from the California Government Code, Section 53600 *et seq.*, and the City's Municipal Code.

Responsibilities of the City Council

The City Council shall consider and adopt a written investment policy and, as this policy states receive and review quarterly investment reports.

### Responsibilities of the City Manager

The City Manager directs and supervises the Finance Director/City Treasurer. The City Manager is also responsible for keeping the City Council fully advised of the City's overall financial condition.

### Responsibilities of the Finance Director/City Treasurer

The Finance Director/City Treasurer is responsible for conducting all treasury functions, including custody and investment of City funds and the development of procedures required to implement this Investment Policy. Under the general direction of the City Manager, the Finance Director/City Treasurer shall be responsible for carrying out all investment transactions.

## **7. AUTHORIZED INVESTMENTS AND LIMITATIONS**

The investment guidelines or deposit of City funds shall be governed by the California Debt and Investment Advisory Commission (CDIAC) and shall be further limited to the following authorized investments and instruments;

The investment or deposit of City funds shall be governed by California Government Code Sections 53600 and 53630 et seq. The California Debt and Investment Advisory Commission shall further limit it to the following authorized investments and instruments.

Attachment; Figure 1. Allowable investments.

## **8. PORTFOLIO DIVERSIFICATION**

It is the policy of the City to diversify its investment portfolio. Invested funds shall be diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity, specific issuer, specific financial institution, or specific class of securities.

## **9. MITIGATION OF MARKET RISK**

In order to minimize market risk and eliminate reliance on interest rate forecasting, the City's policy is to structure its investment portfolio as a maturity ladder. The City shall use the State LAIF and other short-term investments, with a one-year or less maturity, to maintain sufficient liquidity to meet the City's short-term operating, capital, and contingency requirements. The portfolio balance shall be invested in and evenly distributed between instruments with one to five years of maturity.

## **10. AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS**

The elected City Treasurer shall maintain a list of qualified institutions and dealers who provide investment services and are located in the State of California. Qualified institutions and dealers are defined as "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by California law.

All financial institutions and dealers seeking to become investment services providers with the City of Imperial will be considered. The financial institution(s) and/or dealer(s) will provide audited financial statements, proof of National Association of Security Dealers certification, trading resolution, proof of state of California registration, completed authorization to trade agreement, and signed statement of having read and agreeing to comply with the City of Imperial investment policy BEFORE THEY WILL BE CONSIDERED. The City Treasurer will accept and review proposals from financial institutions and/or dealers on an ongoing basis.

The City Council may employ the services of professional investment managers to assist in the management of the City's investment portfolio. Such managers may be granted the discretion to purchase and sell investment securities in accordance with the Investment Policy. Such managers shall have (1) an established professional reputation for asset or investment management; (2) knowledge and working familiarity with state and federal laws governing and restricting the investment of public funds; (3) substantial experience providing investment management services to local public agencies whose investment policies and portfolio size are similar to those of the City; and (4) professional liability (errors and omissions) insurance and fidelity bonding in such amounts as are required by the City. Such managers shall be registered under the Investment Advisers Act of 1940. Such managers shall only be retained by written agreement with the City and approved by the City Council. Professional service proposals shall be solicited from at least three (3) qualified persons or firms in accordance with the City's purchasing policies and procedures.

## **11. USE OF INDEPENDENT INVESTMENT ADVISORS**

The City may retain the services of an independent investment advisor to review the investment program from time to time. The adviser will review compliance with policies and procedures, independently calculate the market value of the City's holdings, report on overall portfolio risk exposure and investment results, and make recommendations, if needed, regarding investment strategy or any aspect of the investment program.

A minimum of two offers or quotations will be obtained before the completion of investment transactions with authorized financial institutions. This does not apply to authorized investment pools.

## **12. SAFEKEEPING AND CUSTODY**

Any investment securities purchased by the City or by a professional investment manager for the City shall be held in third-party safekeeping by a custodial financial institution authorized by the City. Safekeeping receipts will evidence securities held. All security transactions shall be conducted on a delivery-versus-payment (DVP) basis.

## **13. INTERNAL CONTROLS**

The City shall establish a system of internal control policies and procedures, which shall be reviewed annually by the City's independent auditor. The controls shall be designed to prevent the loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions.

## **14. REPORTING**

The Finance Director/City Treasurer will submit a quarterly investment report to the City Manager and City Council. The report shall contain a summary of investment transactions, including investment type, issuing institution, dates of maturity, amount of deposit, current market value for all securities with a maturity of more than twelve months, rate of interest, and such other data as required by law.



FIGURE 1

ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT  
CODE (AS OF JANUARY 1, 2024)<sup>A</sup> APPLICABLE TO ALL LOCAL AGENCIES<sup>B</sup>

See "Table of Notes for Figure 1" on the next page for footnotes related to this figure.

INVESTMENT TYPE	MAXIMUM MATURITY <sup>C</sup>	MAXIMUM SPECIFIED % OF PORTFOLIO <sup>D</sup>	MINIMUM QUALITY REQUIREMENTS	GOVT CODE SECTIONS
Local Agency Bonds	5 years	None	None	53601(a)
U.S. Treasury Obligations	5 years	None	None	53601(b)
State Obligations— CA And Others	5 years	None	None	53601(c) 53601(d)
CA Local Agency Obligations	5 years	None	None	53601(e)
U.S Agency Obligations	5 years	None	None	53601(f)
Bankers' Acceptances	180 days	40% <sup>E</sup>	None	53601(g)
Commercial Paper—Non-Pooled Funds <sup>F</sup> (under \$100,000,000 of investments)	270 days or less	25% of the agency's money <sup>G</sup>	Highest letter and number rating by an NRSRO <sup>H</sup>	53601(h)(2)(c)
Commercial Paper—Non-Pooled Funds <sup>I</sup> (min. \$100,000,000 of investments)	270 days or less	40% of the agency's money <sup>G</sup>	Highest letter and number rating by an NRSRO <sup>H</sup>	53601(h)(2)(c)
Commercial Paper— Pooled Funds <sup>J</sup>	270 days or less	40% of the agency's money <sup>G</sup>	Highest letter and number rating by an NRSRO <sup>H</sup>	53635(a)(1)
Negotiable Certificates of Deposit	5 years	30% <sup>K</sup>	None	53601(i)
Non-negotiable Certificates of Deposit	5 years	None	None	53630 et seq.
Placement Service Deposits	5 years	50% <sup>L</sup>	None	53601.8 and 53635.8
Placement Service Certificates of Deposit	5 years	50% <sup>L</sup>	None	53601.8 and 53635.8
Repurchase Agreements	1 year	None	None	53601(j)
Reverse Repurchase Agreements and Securities Lending Agreements	92 days <sup>M</sup>	20% of the base value of the portfolio	None <sup>N</sup>	53601(j)
Medium-Term Notes <sup>O</sup>	5 years or less	30%	"A" rating category or its equivalent or better	53601(k)
Mutual Funds And Money Market Mutual Funds	N/A	20% <sup>P</sup>	Multiple <sup>Q, R</sup>	53601(l) and 53601.6(b)
Collateralized Bank Deposits <sup>S</sup>	5 years	None	None	53630 et seq. and 53601(n)
Mortgage Pass-Through and Asset-Backed Securities <sup>T</sup>	5 years or less <sup>T</sup>	20%	"AA" rating category or its equivalent or better <sup>T</sup>	53601(o)
County Pooled Investment Funds	N/A	None	None	27133
Joint Powers Authority Pool	N/A	None	Multiple <sup>U</sup>	53601(p)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Voluntary Investment Program Fund <sup>V</sup>	N/A	None	None	16340
Supranational Obligations <sup>W</sup>	5 years or less	30%	"AA" rating category or its equivalent or better	53601(q)
Public Bank Obligations	5 years	None	None	53601(r), 53635(c) and 57603

TABLE OF NOTES FOR FIGURE 1

- <sup>A</sup> Sources: Sections 16340, 16429.1, 27133, 53601, 53601.6, 53601.8, 53630 et seq., 53635, 53635.8, and 57603.
- <sup>B</sup> Municipal Utilities Districts have the authority under the Public Utilities Code Section 12871 to invest in certain securities not addressed here.
- <sup>C</sup> Section 53601 provides that the maximum term of any investment authorized under this section, unless otherwise stated, is five years from the settlement date. However, the legislative body may grant express authority to make investments either specifically or as a part of an investment program approved by the legislative body that exceeds this five year remaining maturity limit. Such approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.
- <sup>D</sup> Percentages apply to all portfolio investments regardless of source of funds. For instance, cash from a reverse repurchase agreement would be subject to the restrictions.
- <sup>E</sup> No more than 30% of the agency's money may be in bankers' acceptances of any one commercial bank.
- <sup>F</sup> Applies to local agencies, other than counties or a city and county, with less than \$100 million of investment assets under management. Includes agencies defined as a city, a district, or other local agency that do not pool money in deposits or investment with other local agencies, other than local agencies that have the same governing body.
- <sup>G</sup> Local agencies, other than counties or a city and county, may purchase no more than 10% of the outstanding commercial paper and medium-term notes of any single issuer.
- <sup>H</sup> Issuing corporation must be organized and operating within the U.S., have assets in excess of \$500 million, and debt other than commercial paper must be in a rating category of "A" or its equivalent or higher by a nationally recognized statistical rating organization, or the issuing corporation must be organized within the U.S. as a special purpose corporation, trust, or LLC, have program wide credit enhancements, and have commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical rating organization.
- <sup>I</sup> Applies to counties or a city and county, and the City of Los Angeles that have \$100 million or more of investment assets under management.
- <sup>J</sup> Includes agencies defined as a county, a city and county, or other local agency that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body. Local agencies that pool exclusively with other local agencies that have the same governing body must adhere to the limits set forth in Section 53601(h)(2)(C).
- <sup>K</sup> No more than 30% of the agency's money may be in negotiable certificates of deposit that are authorized under Section 53601(i).
- <sup>L</sup> Effective January 1, 2020, no more than 50% of the agency's money may be invested in deposits, including certificates of deposit, through a placement service as authorized under 53601.8 (excludes negotiable certificates of deposit authorized under Section 53601(i)). On January 1, 2026, the maximum percentage of the portfolio reverts back to 30%. Investments made pursuant to 53635.8 remain subject to a maximum of 30% of the portfolio.
- <sup>M</sup> Reverse repurchase agreements or securities lending agreements may exceed the 92-day term if the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity dates of the same security.
- <sup>N</sup> Reverse repurchase agreements must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has a significant relationship with the local agency. The local agency must have held the securities used for the agreements for at least 30 days.
- <sup>O</sup> "Medium-term notes" are defined in Section 53601 as "all corporate and depository institution debt securities with a maximum remaining maturity of five 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."
- <sup>P</sup> No more than 10% invested in any one mutual fund. This limitation does not apply to money market mutual funds.
- <sup>Q</sup> A mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Sections 53601 and 53635.
- <sup>R</sup> A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years' experience investing in money market instruments with assets under management in excess of \$500 million.
- <sup>S</sup> Investments in notes, bonds, or other obligations under Section 53601(n) require that collateral be placed into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, among other specific collateral requirements.
- <sup>T</sup> Security types authorized under Section 53601(o) that are issued or guaranteed by an issuer identified in subdivisions (b) or (f), are not subject to the limitations placed on privately issued securities authorized in Section 53601(o)(2)(A)(B).
- <sup>U</sup> A joint powers authority pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years' experience investing in instruments authorized by Section 53601, subdivisions (a) to (o).
- <sup>V</sup> Local entities can deposit between \$200 million and \$10 billion into the Voluntary Investment Program Fund, upon approval by their governing bodies. Deposits in the fund will be invested in the Pooled Money Investment Account.
- <sup>W</sup> Only those obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less.