



AGENDA REPORT SUMMARY

Meeting Date: February 27, 2024

Subject: 2024 Update of City Investment Policy

Prepared by: June Du, Finance Director

Approved by: Gabriel Engeland, City Manager

Attachment(s):

1. Investment Policy (with track changes to highlight edits)

Initiated by:

Staff and the Financial Commission

Previous Council Consideration:

March 28, 2023

Fiscal Impact:

None

Environmental Review:

Not applicable

Summary:

Revised Investment Policies have been recommended by the Financial Commission.

Staff Recommendation:

Move to adopt the revised Investment Policy for 2024.



Subject: 2024 Update of City Investment Policy

Purpose

The City Council's primary responsibilities over the investment function include approving the Policy, annually reviewing such policy, reviewing investment reports issued by the City Manager, authorizing bond documents and other unique financing transactions, and authorizing any deviations from the City's Investment Policy.

Background

The City's Investment Policy sets forth guidelines that ensure the City's funds are invested in compliance with State law and in a prudent manner. This Policy undergoes annual review by the Financial Commission, with the most recent review occurring on February 5, 2024.

At the commission meeting of February 27, 2023, the City's investment advisor, PFM Asset Management (PFM), presented recommended changes to the Policy as the following, the changes were recommended by the Finance Commission and later adopted by the City Council on March 28, 2023.

1. In section K, Maximum Maturity, we recommend adding language stating that a security's maturity is calculated from settlement date to maturity date. We also recommend adding the new Code language regarding forward settlement.
2. In Exhibit A, under City of Los Altos Allowable Investments, we recommend adding shares of beneficial interest issued by a Joint Powers Authority as an allowable investment. Investments. The pool's rating and investment advisor must meet the requirements outlined in CA Code 53601.

PFM, the City's investment advisor since FY2009, has consistently provided satisfactory services. However, in alignment with the City's purchasing policy, the staff initiated the publication of a Request for Proposal (RFP) for investment advisor services. This strategic move aims to collect current market pricing information and provide an opportunity for other vendors to serve the City. Public Trust Advisor, LLC, deemed the most qualified candidate, was unanimously recommended by the interview panel. They have since reviewed the City's Investment Policy and presented proposed changes to the Financial Commission on February 5, 2024. The detailed modifications are outlined in the following section.

Discussion/Analysis

On an annual basis, the Financial Commission reviews the Investment Policy to ensure there is diversity, while still fiscally prudent when investing the City's funds. The recommended changes by the Financial Commission to the Investment Policy February 2024 includes the following:

1. New Section J: Added a section on Authorized Broker Dealers and Competitive Transactions
2. Section L. Maximum Maturity & Duration: Added language for the duration of the investment portfolio.
3. Section M. Permitted Investment Instruments: Additional language regarding credit ratings, procedures in the event of a downgrade and language for diversification.
4. Section N. Prohibited Investment Instruments: Removed California and other states obligations (Municipal Obligations) as being prohibited investments. We recommend including this investment type and is consistent with Exhibit A, Municipal Obligations are listed as a permitted investment A rated or better up to 30%.
5. Exhibit A: There are two separate listings for Supranationals – we recommend deleting one section and maintaining the more specific Supranationals with a limit of 10% total and 5% per issuer.
6. Removing the reference for California based Money Market Mutual Funds (MMF), Repurchase Agreements and Banker's Acceptances since we cannot control the California ownership within these asset classes.
7. Additionally, at the last review of the Investment Policy, the City Council included additional language in the Guiding Principles section as follows: *“**Environmental, Social and Governance (ESG)**. Where feasible and in the best interest of the City, investment decisions will take into account environmental, social and corporate governance factors, which align with the objectives and reflect the City's values and policies, in managing the investment portfolio.”*

Recommendation

The staff recommends the City Council adopt the revised Investment Policy.