



City of Sonora Investment Policy Administrative Policy #33-1

I. Scope and Purpose

- a. The purpose of this Investment Policy is to establish guidelines for the prudent investment of public funds in accordance with the Governmental Accounting Standards Board (GASB) guidelines and California Government Code Section 53601. This policy is designed to ensure the safety, liquidity, and yield of the City's financial assets while maintaining compliance with applicable state laws.
- b. This policy applies to all financial assets of the City of Sonora that are eligible for investment and are under the control of the City. These funds include, but are not limited to, general funds, special revenue funds, capital project funds, debt service funds, and enterprise funds.

II. Objectives: The primary objectives of the City's investment policy are, in priority order:

- a. **Safety:** The foremost objective is to safeguard principal by mitigating credit and interest rate risks.
- b. **Liquidity:** Investments must remain sufficiently liquid to meet the City's operational needs.
- c. **Yield:** Investments should generate a reasonable rate of return while complying with the first two objectives.

III. Standard of Care

- a. The standard of prudence to be used shall be the "Prudent Investor" standard, requiring investment decisions to be made with care, skill, prudence, and diligence under prevailing circumstances.

IV. Authorized Investments

- a. In accordance with Government Code Section 53601, the City is authorized to invest in the following instruments:
 - i. **U.S. Treasury Securities:** Obligations issued by the U.S. government with full faith and credit backing.
 - ii. **Federal Agency Securities:** Securities issued by U.S. government-sponsored agencies (e.g., FNMA, FHLB, FHLMC).
 - iii. **Local Agency Investment Fund (LAIF):** A pooled investment fund managed by the California State Treasurer.
 - iv. **Certificates of Deposit (CDs):** Issued by banks and savings institutions in compliance with California law.



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- v. **Commercial Paper:** Rated A-1/P-1 by a nationally recognized rating agency with a maximum maturity of 270 days.
- vi. **Municipal Securities:** Issued by California local agencies or states, rated at least A or equivalent.
- vii. **Medium-Term Corporate Notes:** Rated at least A or equivalent by a nationally recognized rating agency.
- viii. **Money Market Mutual Funds:** Regulated and rated AAA by at least one nationally recognized rating agency.

V. Investment Limitations

- a. No more than **40%** of the City's total investment portfolio may be invested in commercial paper.
- b. No more than **30%** of the portfolio may be invested in medium-term corporate notes.
- c. The City shall not invest in inverse floaters, range notes, interest-only strips derived from mortgage pools, or any other high-risk derivative.

VI. Diversification and Maturity

- a. The City's portfolio shall be structured to avoid concentration risk by diversifying investments across multiple issuers and maturities. The maximum maturity of any single investment shall not exceed **five (5) years**, unless expressly approved by the City Council.
- b. The weighted average maturity of the portfolio shall be managed to maintain adequate liquidity.
- c. No more than 5% of the portfolio may be invested in the securities of a single issuer, except for U.S. Treasury and federal agency securities.
- d. The portfolio should maintain adequate diversification to reduce risk exposure.
- e. The City shall not engage in high-risk derivative investments.

VII. Performance Reporting and Review

- a. The City Treasurer shall submit quarterly investment reports to the City Council, detailing holdings, market value, and performance.
- b. The City Administrative Services Director shall conduct an annual review of the policy to ensure continued compliance with state laws and best practices.

VIII. Safekeeping and Custody

- a. All securities shall be held in the City's name and kept in a third-party custodial account to protect against loss.
- b. The City shall maintain an internal system of controls to ensure compliance with investment procedures and audit requirements.



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IX. Ethics and Conflict of Interest

- a. City officials and employees responsible for investment decisions shall avoid any conflicts of interest and comply with all applicable ethics laws and disclosure requirements.

X. Policy Adoption and Amendments

- a. This Investment Policy shall be adopted by resolution of the City Council and reviewed annually and updated as necessary to reflect changes in GASB standard, State laws, and best practices. Any amendments must be approved by the City Council.