



Date: Tuesday, May 23, 2023

Honorable Mayor and Council Members

Author and title: Nicole Casey, Administrative Services Director

Title: **Adoption of the Statement of Investment Policy for the 2023/2024 Fiscal Year**

Jen Callaway, Town Manager

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**Recommended Action:** Adopt resolution 2023-30 accepting the Town of Truckee Statement of Investment Policy for the 2023-2024 fiscal year.

**Summary:** State law requires that the Town Council review and adopt the Town's investment policy annually.

The Town's investment policy provides guidelines for the investment of the Town's idle cash and specifies acceptable investment instruments as allowed by the California Government Code. In addition, it outlines the policies to be followed by Town staff in conducting the administration of cash management activities. The proposed changes to the investment policy for fiscal year 2023-2024 are derived from SB1489, Local Government Omnibus Act of 2022 as follows:

- Clarifies that maturity dates are measured from the date of settlement as opposed to the investment's original maturity.
- Prohibits purchasing securities with a forward settle of more than 45 days.
- Extends the time within which staff must make its quarterly report to council on the Town's investment portfolio from 30 days to 45 days.

A detailed discussion of these changes is included below.

**Discussion:**

SB1489, *Local Government Omnibus Act of 2022* was signed into law on September 18, 2022 and became effective for California local government agencies starting on January 1, 2023. This act provided for minor changes to local government agency investment policies, which staff has incorporated into the draft investment policy in Attachment B, under the guidance of the Town's investment advisor's Chandler Asset Management (CAM).

- SB1489 clarifies that maturity dates are measured from the date of settlement, verse the total maturity timeline of the original security. In general, the longer the maturity for an investment, the more interest rate risk there is for that investment. Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the amount of time to maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Although it fluctuates based on the Town's current holdings, in general the weighted average maturity of the Town's investment portfolio is less than one year. Maturities of the Town's

investments are reported to Council quarterly and as of April 30, 2023, none of the Town's current investments had a maturity greater than five years.

- SB1489 prohibits local government agencies from purchasing investments with a forward settle of more than 45 days. The average forward settle for most investments is two days. In the past, security transactions were done manually rather than electronically and investors would have to wait for the delivery of a particular security. Because delivery times could vary and prices could fluctuate, market regulators set a period of time in which securities should be delivered and cash exchanged. Electronic transfers have greatly reduced the time necessary to complete the transaction.

The greater the time between the transaction and the actual settlement date exposes the transacting parties to credit risk. Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. Of the Town's investment portfolio that is not invested in the Local Area Investment Fund (LAIF), about half is invested in government securities, which had a settlement date of one business day. Of non-federal investments in the Town's existing portfolio, as of April 30, 2023, had a settlement period greater than fifteen days.

- SB1489 also extends the time that local government agencies have to make their quarterly report to their board regarding the Town's investments from 30 days to 45 days. The Town reports the state of the Town's investments to Council as part of the quarterly treasurer's report, which includes all the balances of the Town's bank accounts, adjusted for outstanding items such as deposits and checks in transit. This additional time allows staff to complete the monthly bank reconciliation and report an accurate and reconciled balance to Council.

### **Sustainability Policies –**

Council previously approved a change to the investment policy prohibiting non-pooled investments in companies involved in fossil fuel extraction or coal mining industries, in accordance with Council's direction toward their Greenhouse Gas Reduction goals. As a reminder, pooled investments refer to the Town's cash that is held in the LAIF with the state. The State Treasurer and the Investment Division staff of the State Treasurer's Office make all investment decisions for the funds held in LAIF. Non-pooled funds refer to the funds that the Town invests under the guidance of an investment advisor, such as CAM.

Staff has had initial meetings with CAM regarding the current practices among local government agencies with regard to sustainable investment policies. Staff continues to investigate the options to better understand the full financial implications of each option and needs additional time to fully analyze each option. Under the division's current workload, staff estimate that they will be able to bring an analysis of the options in a separate staff report by the end of the calendar year.

In order to fulfill the Town's obligation to adopt an annual investment policy, staff recommends approving the proposed changes. Council can amend the investment policy at any time throughout the year with an additional resolution.

### **Priority:**

<input type="checkbox"/>	Enhanced Communication	<input checked="" type="checkbox"/>	Climate and Greenhouse Gas Reduction	<input type="checkbox"/>	Housing
<input type="checkbox"/>	Infrastructure Investment	<input type="checkbox"/>	Emergency and Wildfire Preparedness	<input checked="" type="checkbox"/>	Core Service

### **Fiscal Impact:**

**Public Communication:** AB1489 was adopted by the California legislature. As part of the legislative process there were multiple committee reviews and public hearings involved in developing the bill.

**Attachments:**

Link 1 SB1489 Bill Language -

[https://leginfo.legislature.ca.gov/faces/billPdf.xhtml?bill\\_id=202120220SB1489&version=20210SB148995CHP](https://leginfo.legislature.ca.gov/faces/billPdf.xhtml?bill_id=202120220SB1489&version=20210SB148995CHP)

Attachment A: Resolution 2023-30

Attachment B: Town of Truckee Investment Policy for the 2023-2024 fiscal year