



Fremont City Council

3300 Capitol Avenue
Fremont, CA 94538

SCHEDULED

Meeting: 06/04/19 07:00 PM
Div/Dept: Finance Department
Category: Plans, Policies and Studies

STAFF REPORT (ID # 3777)

Sponsors:
DOC ID: 3777

ANNUAL APPROVAL OF INVESTMENT POLICY - Annual Approval of Investment Policy; Revision to Authorized Investments; Annual Delegation of Authority to City Treasurer to Manage Investments

Contact Persons:

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EXECUTIVE SUMMARY: Government Code 53646(a)(2) provides for the City Council's annual consideration of the City's Investment Policy at a public meeting. Additionally, the City Council may elect to delegate its authority to invest and reinvest City funds to the City Treasurer for up to one year pursuant to California Government Code section 53607.

Recommended revisions to the Investment Policy include conforming the number of minimum rating requirements to those specified in California Government Code section 53601, banning investment in the fossil fuel industry, and eliminating a reference to an obsolete job classification.

Staff is recommending that the City Council adopt a resolution approving the City's revised investment policy for FY 2019/20 and delegating the City Council's authority to invest and reinvest public funds, and to sell or exchange securities so purchased, to the Finance Director/City Treasurer for one year or until earlier revoked by the City Council.

BACKGROUND: The City Council is expressly authorized to invest and manage the City's public funds pursuant to California Government Code section 53600.3. Government Code section 53646(a)(2) provides for the City Council's annual consideration of the City's Investment policy at a public meeting. Additionally, Government Code section 53607 authorizes the City Council to delegate its authority for conducting investment transactions to the City Treasurer for up to one year. The City Council approved the City's Investment Policy and delegated investment authority to the City Treasurer for FY 2018/19 on June 5, 2018.

DISCUSSION/ANALYSIS:

City Investment Policy

Once adopted by Council, the Investment Policy sets portfolio management objectives and practices, specifies allowable investment instruments, states the criteria for purchasing those securities, prohibits certain types of security purchases, and fixes the maximum investment horizon (generally five years). The Treasurer uses these guidelines to manage and safeguard the investment of all public funds held by the City, except for bond proceeds. Bond proceeds are invested in accordance with financing documents approved by the City

Council when bonds are first issued. These investment transactions are executed by the trustees of the respective bond issues under the direction of City staff.

On April 16, 2019, the City Council approved the appointment of PFM Asset Management LLC ("PFM") to provide investment advisory services to the City. Although PFM actively manages the portion of the City's cash portfolio not needed to meet near-term obligations, fiduciary responsibility for investments remains with the City. The Treasurer and Finance Department staff ensure that all investments are consistent with the Investment Policy and provide oversight with appropriate checks and balances over the investment process.

Proposed Revisions to Investment Policy

As part of its portfolio management services, PFM has reviewed the City's proposed FY 2019/20 Investment Policy and has determined that it is in compliance with all applicable California Government Code statutes regulating the investment of public funds. However, PFM has suggested the City consider revising language related to minimum rating requirements to more closely reflect the requirements specified in the Government Code.

The recommended revisions do not impact the minimum required rating, but would reduce the required number of ratings from "at least two Nationally Recognized Securities Rating Organizations (NRSROs)" to one NRSRO. The asset categories affected would be:

- Negotiable certificates of deposit (CDs)
- Medium term corporate notes
- Money market mutual funds
- Collateralized mortgage obligations and asset-backed securities

Based on discussion with PFM, City staff does not believe that reducing the number of required ratings would adversely affect the security of the portfolio, but that it could grant the City access to investment opportunities that are not now currently available.

Also, pursuant to City Council policy adopted October 9, 2018, staff has revised the Prohibited Investments section of the Investment Policy to ban investments in securities issued by firms whose general business activities are classified as "Energy - Oil, Gas & Coal" according to the Bloomberg Industry Classification System.

In addition, staff is also suggesting elimination of a reference to the "Treasury Analyst" job classification which is no longer included in the Finance Department's organizational structure.

Staff recommends that the City Council adopt a resolution approving the City's Investment Policy for FY 2019/20 with the specified revisions.

Delegation of Authority to the City Treasurer

Staff recommends that the City Council delegate its authority to invest and reinvest public funds, and to sell or exchange securities so purchased, to the Finance Director/Treasurer for one year or until earlier revoked by the City Council.

Pursuant to the delegation of authority authorized by Government Code section 53607, the Treasurer is required to make a monthly report of investment transactions to the City Council. Each monthly Cash and Investments Report ("Treasurer's Report") describes the portfolio's composition and recent performance, and reports the month's investment transactions. Within each Treasurer's Report, the Treasurer certifies that all investments were made in compliance with the Investment Policy and that there are adequate funds to pay City obligations for at least six months.

FISCAL IMPACT: None.

ENVIRONMENTAL REVIEW: None required.

ATTACHMENTS:

- Draft Resolution- Annual Investment Policy

RECOMMENDATION: Adopt a resolution approving the City's Investment Policy for FY 2019/20 and delegating the City Council's authority to invest and reinvest public funds, and to sell or exchange securities so purchased, to the Finance Director/Treasurer for one year or until earlier revoked by the City Council.